

BRIEFING FOR THE INCOMING MINISTER OF HOUSING

Housing New Zealand July 2019

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Foreword

Introduction

Housing New Zealand and its subsidiary Homes Land Community (HLC) have undergone significant growth and change in recent years in response to changing Government priorities, customer needs and asset condition. Our mandate has extended beyond the provision of state housing to include transitional, affordable and market housing. Long term planning and customer research have seen Housing New Zealand focus on improving the current and future wellbeing of our customers, strengthening our community focus and maintaining and gaining momentum in providing warm, dry, safe housing that meets the needs of our customers.

Since 2016, we have transformed from a small-scale bespoke builder of houses for our customers, to delivering a large and complex build programme on brownfield sites that are changing communities across New Zealand. This has required new ways of working with our customers, builders, developers, local government and communities. At the same time HLC, who do master planning and land civils, has gone from working on a single greenfield project with no state housing to leading the planning, civils and land sales programme for nine large scale developments.

Between 2016 and 2019 Housing New Zealand and HLC have comprehensively changed their businesses to align them with the new tasks and scale they have been asked to deliver. Both organisations have changed their structures, added capacity and capability and initiated programmes of work to deliver more effective and efficient customer and building processes. They continue to make changes to ensure delivery of the Government's housing aspirations. This will influence performance across the construction sector including modelling new technology, increasing density, reducing costs and regulatory change which creates wider benefits for all New Zealanders.

There have been significant changes to tenancy management with a comprehensive programme of work focussed on supporting customers to have lives of dignity and stability while they live in state homes. This programme has included the introduction of intensive tenancy management, technology innovations, community based support schemes and new policies centred on tenants' needs, like the new pet policy, which was implemented in 2018.

Housing New Zealand continues its work to maintain and repair an ageing portfolio, including retrofitting homes for a further 60 years of use.

Housing New Zealand and HLC have around 150 participants in our panels for builders, demolition companies and site works that are pre-approved to deliver with pace and certainty. This has provided build capacity, and is supporting us to deliver KiwiBuild and transitional homes, alongside meeting the Government's aim for an increased supply of state homes. We have contract arrangements in place that leverage the scale and longevity of Housing New Zealand's build programme in both civils and house building, and that will fundamentally change the capacity and commitment of the market to deliver state houses.

We are well poised to move forward at pace; supporting the Government and other agencies to achieve good public outcomes for housing, customers, neighbourhoods and communities in New Zealand. This briefing provides a detailed description of what we have already delivered, our plans for the future, and how we will support a smooth transition to establishing Kāinga Ora.

We have been busy and there is much to be proud of

Every day we:

- place on average 15 families into our homes
- attend to 1,200 maintenance call-outs
- spend \$1.3 million on maintenance and upgrading our homes
- take 2,000 calls through our Customer Services Centre
- complete four new homes
- have 2,500 homes under construction
- issue nearly 50 KiwiSaver HomeStart grants for first home buyers
- grant more than four Welcome Home Loans for home buyers

We have a deeper understanding of the individual needs of our customers through our Customer Strategy and continue to improve our service delivery, ensuring our customers have access to the support they require. With the emphasis on a customer focussed approach, Housing New Zealand continues its efforts to provide better tenant care and improve outcomes, while operating with the right policies and processes to support our tenants to stay in their homes for as long as they need them. We have already implemented new services and policies which support our new direction through our approach to sustaining tenancies, Te Waka Urungi (Intensive Tenancy Management), placement specialist roles and pre-placement interviews, and being a more pet-friendly housing provider. These new services are also providing us an opportunity to learn and will help inform future change.

We are working with a range of social service providers such as the Auckland City Mission, the Wellington Downtown City Mission, Vision West, He Korowai Trust, and the Kotahitanga Alliance. We also work closely with other agencies such as the Ministry of Social Development, Fire and Emergency New Zealand, Oranga Tamariki and the Department of Corrections.

Housing New Zealand engages with other agencies, Iwi and Iwi Trusts to explore and support opportunities to achieve Māori aspirations for housing.

Housing New Zealand has continued to identify where Māori and iwi interests intersect with our activity. This includes early and repeated engagement with iwi and consultation with agencies in order to contribute to the Government's objectives for Māori housing.

To achieve better public outcomes for our customers it is essential that they have warm, dry and safe homes to live in that meet their needs. We have a clear long term view of our financial and asset position through our Asset Management Strategy and Long Term Investment Plan. We are creating a better performing portfolio not only through our new build programmes, but also through the renewal and maintenance of our existing properties. Asset management plans are in place or being developed for every property and piece of land we own. We know what we are going to do with them and when.

Our homes are old, they are being renewed through a retrofit that will, at a minimum, deliver insulation into walls, double glazing and other improvements. Where economically appropriate, we redevelop, pull down and rebuild. Forty-five thousand of our existing homes will be renewed over the next 20 years.

We repaired 5,140 damaged homes in Christchurch and built more than 700 new homes. This huge programme of work restored Christchurch's state housing numbers to pre-earthquake levels and increased the supply of affordable housing. Christchurch now has some of the most modern

state housing in the country. The lessons learned in Christchurch are invaluable as we accelerate our build and maintenance programmes across New Zealand.

With New Zealand facing a significant shortage of homes, we have stepped up our asset development programme and in 2018/19 we exceeded our SPE targets of:

- gross build more than 1,380 new state homes
- increasing the net number of state homes in our portfolio by more than 1,100, which is made up of total additional homes less any sales, lease expiries and demolitions.

In addition to our SPE targets, we anticipate we will have delivered 88 KiwiBuild homes and added 11 new transitional and Community Group homes. At the end of June 2019, our current forecast is that we have exceeded build targets by delivering more than 1,400 new state homes and increasing our state housing by more than 1,200 homes.

This compares with 871 new homes in 2015/16.

There were 2,703 state homes under construction or under contract at the end of May 2019, compared to 469 state homes under construction or under contract in June 2016.

Hobsonville Point in Auckland showcases the ability of HLC to deliver quality urban development at scale. When completed in 2024, the development programme will have delivered in excess of 4,000 homes. Hobsonville Point is about developing community and providing significant amenities for its more than 11,000 residents.

Housing New Zealand and HLC are delivering the Auckland Housing Programme, as well as leading significant regeneration in Porirua. We have separated out land and building, reflecting construction industry dynamics and establishing centre of excellence in delivery. HLC deliver large-scale master planning, civil works, land remediation and sell surplus land to builders with development agreements. Housing New Zealand's focus is on the building of fit-for-purpose state homes to meet our customers' needs.

Our input into the Auckland Unitary Plan has enabled significant intensification of our land in Auckland and will provide around 30,000 extra home on our land. We are now able to include a range of typologies in our redevelopments and to provide additional funding through the sale of affordable and market housing. We are in a strong position to meet the needs of our customers and to contribute to the demand for increased housing in Auckland.

Our build programme is enabled by our strong balance sheet and level of financial performance. The programme is financed outside of the Crown's balance sheet and land transactions can be smoothed across projects with Housing New Zealand's reserves. This means budget allocations are not required for capital works.

We have improved the warmth and dryness of over 25,000 homes through our targeted Warm and Dry programme. These are mostly older homes not addressed through other programmes or larger homes where children are most likely to live. Many more homes have had similar amenities (e.g. curtains, carpets, heaters) installed through our regular programmes of work. We have created safe outdoor play areas at over 16,000 homes where children are living and installed around 275,000 long-life smoke alarms.

We have worked hard to reduce both the number of vacant properties and the time a property is vacant between tenancies, ensuring properties are quickly returned to the letting pool. In 2017/18 we reduced the national average turnaround time for vacated homes to 19 days compared with 38 days in 2015/16. We are continuing to improve on this time. The average turnaround time is forecast to be 16 days in 2018/19 and this is the equivalent of an extra 234 homes in our portfolio for this year.

As a result of all this work we are now poised to deliver even more

Our goal is to create a modern, high quality state housing portfolio that meets the complex needs and requirement for high levels of social support of an increasing proportion of our customers. We are working to better understand their individual needs. This will enable us to support them to sustain their tenancies and, where possible, move on to housing independence. To achieve this, we are moving to increase the social support our tenants receive. This includes strengthening our partnerships with a range of social service providers and other agencies. Our policies and processes are also being revised to fit with this change in role and paradigm.

Our Asset Management Strategy will see 75 percent of our homes made fit-for-purpose over the next 20 years. This equates to renovating or rebuilding approximately 45,500 homes. As a result, our homes will not only be the right size and in the right place for our customers; they will also be of a high quality. Our redevelopments will be designed in a way that supports our customers to build positive relationships with each other and to participate in their communities. They will also enable, where possible, built-in access to key social agencies and support groups.

Housing New Zealand has been moving from contracting building at low volumes three years ago to significant volumes going forward. A large number of suppliers will be required to deliver the volume of work planned. We are able to provide longer-term certainty for suppliers through multi-year contracts and confidence in the pipeline of work we are offering. Building firms can grow their capability and capacity with the surety of future work. This protects our potential to deliver in the event of any changes in the building and construction market. Our target is to reduce the cost of building by 15 percent, while improving quality and performance, through the use of innovative construction methods at scale. These include modular housing and prefabrication.

Part A: Facts at a Glance

Facts at a glance – as at June 2019*

HLC Homes. Land. Community.

Housing New Zealand
Housing New Zealand Corporation

Who we are

Housing New Zealand is the largest residential landlord in New Zealand.

Housing New Zealand is managing **65,257** properties
Providing homes for approximately **186,000** people

Valued at **\$27b**
Providing **1,500** Community Group Homes
Provided **655** transitional housing places since Oct 2016

Our portfolio



Of the 65,257 properties that Housing New Zealand manages:

98% are occupied
45% are in Auckland

The average age is **45 years**

62,773 houses are owned by Housing New Zealand

2,484 houses are leased

40% were built before 1966
40% have three bedrooms



A diverse and changing tenant base

About **7,000** families housed last year.

Tamariki make up around 44% of the people living in our homes - that's 82,000 people under 20.

- 21% of our tenants are over 65.
- The most common household type is a single parent with children followed by single person households.
- 20% of tenants have been in a Housing New Zealand house for over 15 years.
- 97% of tenancies are supported by the Income-Related Rent Subsidy managed by Ministry of Social Development; the remainder pay market rent.



- Approximately 35% identity as Māori
- 29% identity as Pacific peoples
- 33% identity as European
- 13% other

* Tenants can identify as more than one ethnicity

Housing demand has increased by **34%** in the last 12 months

A&B

We only house Priority 'A' (at risk) and 'B' (serious housing need) applicants from the Housing Register. Majority being 'A' priority. This means an increasing proportion of our customers have complex needs.

Placed nearly **5,000** priority 'A' applicants, and nearly 100 'B' applicants.

20 intensive tenancy managers working with **300** complex-needs tenants at any given time.

Managing our portfolio

We need to replace or renew **75%** at a rate of 2,400 properties each year.

Our portfolio is expensive to maintain. In 2018/19 we will spend around \$500 million maintaining, upgrading and improving our homes.

The total spend on maintenance per home was

\$7,500



The nationwide time between tenancies **16 days** in 2018/19, compared to 34 days in 2016/17

We completed **575,146** work orders. We answered **730,179** calls from tenants.

- 60** homes upgraded through the Retrofit programme, up to 2,000 more over the next three years.

Increasing supply across our portfolio

In 2018/19 we built more than **1,400** new state homes, compared to 838 built last year.

Built **88** Kiwibuild homes

Added **22** transitional houses

We increased our portfolio by more than **1,200** properties - over our target of 1,100

In the next three years we will: deliver **3,300** additional public homes

renew almost **5,000** public homes through retrofit and redevelopment

be working on land that has the capacity for **49,000** homes



* All figures subject to final audit

Part B: Moving forward at pace

Introduction

Housing New Zealand strives to be a high-performing organisation that delivers for our customers and other stakeholders. There are four factors that we are focusing on to achieve this goal:

- Being strategy driven
- Attracting and retaining brilliant and engaged people
- Striving for operational excellence
- Driving efficiency.

These are the factors common to high-performing organisations and they will support us in achieving our strategic priorities.

Housing New Zealand is the largest residential housing provider in New Zealand, accounting for around 12 percent of the total rental sector. We own about 62,773 properties and lease about 2,484 properties. In all, we manage approximately 65,257 properties and approximately 186,000 people live in these homes. The portfolio is valued at nearly \$27 billion, making us one of the Crown's largest assets.

Our customers are often some of New Zealand's most vulnerable people. As a public housing provider we go above and beyond what other landlords are required to do when it comes to supporting our customers and linking them with the social support services they need. Our aim is to ensure that every New Zealander has a safe, warm, and dry home every night; the homes we are providing are in the right places, of the right size and to a high quality; and that our customers live well in their homes, with dignity and stability and have access to the social services they require to thrive.

In the following sections we describe our strategic intentions, what we have already achieved and how we are placed to transition to become part of Kāinga Ora. Unless stated otherwise all figures and programme status updates are as at the end of May 2019.

Transition to become part of Kāinga Ora – Homes and Communities

The Government announced in October 2018 that the functions of the key housing delivery agencies – Housing New Zealand (including HLC) and the KiwiBuild Unit - will join together to become Kāinga Ora – Homes and Communities. This is an important step to consolidate key functions across the public sector to improve outcomes and will result in a significant amount of change for Housing New Zealand over the next 12 months. When Kāinga Ora is established, it will:

- lead urban development projects of all sizes
- be a world-class public housing provider with associated tenancy services and asset management responsibilities.

As part of Kāinga Ora our people will make a significant contribution to transforming the way New Zealand urban areas are planned, designed and built. We will continue to undertake our core functions of providing high quality public housing and tenancy services and support the Government's delivery of transitional, affordable and market housing.

Expectations for Housing New Zealand for 2019/20

The Government's expectations for Housing New Zealand have been framed in the context of our transition to becoming part of Kāinga Ora. These expectations include:

- working towards the Crown's social objectives
- supporting the establishment of Kāinga Ora
- placing customers at the centre of everything we do
- delivering state, affordable and market housing at pace
- providing greater transparency in delivery planning and reporting
- assuring financial performance.

Ensuring our organisation is well positioned to deliver

To be successful in achieving the Governments expectations, Housing New Zealand must operate as a high performing organisation. We need to be able to respond quickly to future changes in demand or in our tenant demographics. To achieve this we continue to embed a culture of sustainable and continuous improvement. Our Strategic Plan sets out how our organisation will deliver on our priorities.

Key operational changes include the growth of our Strategy Group, establishing a Business Innovation and Development Group, the reorganisation of the Construction Group and the use of our subsidiary HLC's expertise in land development. This has streamlined our engagement with our build partners and stakeholders such as Auckland Council. Collectively, these changes mean we are well positioned to increase the supply of transitional and state housing and to improve the way we deliver services to our customers. We are also able to deliver more affordable and accessible housing for all New Zealanders.

Four key operational strategies provide the necessary guidance for our organisation. These are our Customer Strategy, Long-Term Financial Strategy, Asset Management Strategy, and Supplier Strategy.

We are developing a performance measurement framework enabling us to report on more meaningful measures than the outputs reported on in the past. These include positive social outcomes such as sustaining tenancies and supporting our tenants to move into private rental or home ownership where possible.

Customer Focus

The underlying purpose of our Customer Strategy is to move Housing New Zealand beyond being simply a housing provider, to an organisation that is focussed on broader social outcomes for our customers. Substantial progress has been made toward shifting our focus to this broader purpose. We will continue to provide opportunities for our customers to thrive in our homes, to sustain their tenancies and, if possible, to move to housing independence. We recognise the latter may not always be possible.

Our customers are some of the most vulnerable people in the country and the proportion with high and complex needs is increasing. Our goal is to create a modern and fit-for-purpose state housing portfolio that is matched to their individual needs. This means more than building homes of the right sizes and in the right places. They must also be of a high quality and, where necessary, provide built-in access to social support services through their design.

Developing a better understanding of our different customer groups will enable us to assist them to sustain their tenancies and to ensure our homes cater to their needs. Our redevelopments are

designed to support our tenants to build positive relationships with each other and to participate in their communities. Intensification potentially requires greater support as they will be living in close proximity to each other and the wider community. However, it also provides an opportunity to diversify the types of homes we offer and the social services that can be provided. Partnerships with social support providers can enable access to the support services required in other areas of our tenants' lives. We are working closely with a number of organisations to meet this growing challenge.

Our tenancy managers have a wealth of experience. We are the only agency that regularly interacts with our tenants in their homes. This gives us unique insight into their lives. One of our immediate goals is to better utilise this knowledge to inform our ongoing service delivery and asset design. We commissioned a research project designed to give our tenants a voice. This project has highlighted the opportunity we have to deal with potential issues through simple service responses.

We are also telling the story of our tenants by creating more content through new and existing channels such as our website and social media platforms like Facebook and LinkedIn.

Since the launch of our Facebook page in late October 2018, there has been around three million views that enable our story about the business and the effects we are having on customers, their whanau and communities to reach a much wider audience than ever before.

Managing our existing properties to ensure they are of a high standard and meet our customers' needs.

To achieve better social outcomes for our customers it is essential they have warm, dry and safe homes to live in. We are creating better performing properties not only through our new build programmes, but also through the renewal and maintenance of our existing properties.

Our Asset Management Strategy has enabled us to better understand the natural lifecycle of our homes and what is required to ensure they remain fit-for-purpose across their lives. The majority were built over two periods of time. Those built in the 1940s and 50s, while durable, are now reaching the end of their life cycle. Those built in the 1960s and 70s were built to meet immediate need and are less durable and of lower quality. The challenge we face is that the average age of our homes is 45 years, with 40 percent of the portfolio built before 1966. This means around 75 percent of our homes (approximately 45,500) will need significant spend over the next 20 years to ensure they are of a high quality, the right size, and in the right location to meet our tenants' needs.

Depending on the life cycle stage of the property, and its suitability for our tenants, our options include: continuing maintenance and repair; retrofitting the property; redeveloping it to make the best use of the land; disposing of it. Disposals are an important function of good asset management and, in some instances, may be the most appropriate option within an overarching portfolio management strategy.

Having vacant properties is not desirable. As part of our asset management, we are working to reduce both the number of vacant properties and the turnaround time between tenancies.

Increasing the supply of homes across New Zealand through our building programmes

As an organisation, we are firmly focussed on increasing the scale and pace of our build programmes to deliver an unprecedented volume of new and replacement homes, particularly in Auckland where demand is greatest. We have spent the last three years building the necessary organisational capacity and capability, including developing productive relationships with our suppliers. In addition to new builds, we also acquire additional state homes to meet demand by purchasing or leasing existing properties.

Gaining momentum for 2019/20 and beyond continues as the pipeline of construction activity grows, and we continue to invest significant funds. About 51 cents in every dollar being invested in construction projects is for homes to be delivered in out years. Currently there are over 9,200 homes in our future pipeline and forecast (over the periods 2019/20 to 2025/26). There were 2,703 state homes under construction or under contract at the end of May 2019.

Increasing supply and capacity

Housing New Zealand is increasing the supply of state and affordable homes to help meet the increased demand for housing. On average we complete construction of four new homes a day. Housing New Zealand is using the land it owns more effectively, demolishing old homes and replacing them with the equivalent of more than three homes on that land.

To enable this increased pace and scale of development activity, Housing New Zealand has:

- grown capability, capacity and partnerships
- introduced innovations to deliver improvements in cost, speed, quality, sustainability and market productivity
- improved systems and processes
- developed standard housing designs (including options for innovative building design)
- completed an extensive market review to understand and work more constructively and effectively with our build partners
- obtained funding for an accelerated build programme.

Making housing more affordable and accessible for New Zealanders

As one of the country's largest landowners we are well placed to make a real difference to the affordability and accessibility of housing in New Zealand. We can achieve this in three ways: leveraging our large scale development programmes to reduce construction costs, freeing up land through intensification and providing home ownership products for our tenants and first home buyers.

Innovate Partner Build

Housing New Zealand has created a new way of working smarter with the construction industry through the Innovate, Partner, Build Programme.

Housing New Zealand now uses wherever possible 'construction partnering agreements' with suppliers – agreeing multi-year contracts to build a set number of homes each year.

These longer-term contracts, in which both parties guarantee to complete a given number of homes, will gradually replace most of Housing New Zealand's site-by-site contracting. They will save time by reducing internal processes, and reduce the risks to build partners by guaranteeing a baseline minimum of building work. They will also incentivise build partners to invest in staff and equipment longer-term, reducing the boom-bust nature of the industry. Already savings of over 15 percent are being achieved by focussing just on the labour portion of the build contracts. The materials portion is next.

Housing New Zealand is also working on understanding the onshore and offshore market capability, consenting issues and implications, potential pricing and the volume required to encourage investment in additional capacity.

The programme will build on other new initiatives to get houses built faster and more efficiently, including building to standard house designs and using more offsite manufacturing.

Freeing up land through intensification

Housing New Zealand, particularly through the Auckland Housing Programme, is intensifying the use of our land and freeing up development-ready land. Where possible, our aim is to maximise the amount of development that occurs on our land and hence our contribution to addressing overall supply constraints.

Home ownership products

Housing New Zealand provides the Tenant Home Ownership and First Home grant that we fund internally. Both schemes are only available outside areas of high demand and our ability to offer homes is limited by the current demand for public housing. In 2017/18 we sold a total of 49 homes through these schemes.

Housing New Zealand administers the Welcome Home Loan, Kāinga Whenua Loans and KiwiSaver HomeStart Grant for the Crown. These are all aimed at helping first home buyers into the market. In 2017/18, a total of 17,699 first home buyers were supported to purchase their own home through the KiwiSaver HomeStart Grant.

The need for a long-term financial strategy

Housing New Zealand operates in a residential housing market characterised by high construction costs, variable land costs (ranging from very high in urban centres, to very low in provincial areas), and high levels of speculative investment predominantly driven by real or perceived capital gains (which are typically not accessible to Housing New Zealand as a long-term housing provider).

In this context, it is important to note that rents are not sufficient to meet the total costs of supply, which includes the costs of land, buildings, property rates, water rates, insurance, tenancy services, repairs and maintenance. In some markets, rents are not even sufficient to cover operating costs, let alone costs of land and buildings. Housing New Zealand is generally able to manage these gaps by leveraging its balance sheet, including through targeted sales in poorer performing areas, sale of high value land, intensification of land use, particularly in Auckland, and free rental cash flows stemming from having low debt levels, and a shareholder willing to forego surplus payments. Our balance sheet enables Housing New Zealand to finance its capital programme outside of the Government's core debt. The balance sheet also enables Housing New Zealand to manage value issues without affecting the Crown financial performance.

However, as our business changes and, in particular, as we look to both increase the supply of state housing across the country and renew our ageing portfolio, it is crucial that we understand the implications for long-term financial sustainability, through the development of a long-term (30-year) financial strategy. The challenge for the strategy is to balance trade-offs between generating internal funds, servicing external finance and the scale and pace of portfolio reconfiguration, growth and renewal.

To help finance the delivery of Housing New Zealand's renewal programme and thousands of new and additional homes, in mid-2018 the Government agreed to changes to Housing New Zealand's borrowing protocol enabling it to borrow up to \$3.05 billion from sources other than the Crown.

From June 2018 to June 2022 Housing New Zealand will invest \$5.6 billion in its housing stock, resulting in a net increase of 1,100 additional state homes each year for that period, with the financing also being used for a renewal programme to significantly upgrade most of Housing New Zealand's older housing stock.

Future briefings

Ministerial briefings and business cases

Programme	Purpose	Estimated date
LTIP	Revised LTIP assumptions	September
Auckland Housing Programme	Revised business cases for: <ul style="list-style-type: none"> Oranga Roskill South Owairaka Mangere West 	September
Build programme	Auckland and Wellington Investment Plans	September
Build programme	s9(2)(j)	October
LTIP	Interim Kainga Ora LTIP	November
Auckland Housing Programme	Revised business cases for: <ul style="list-style-type: none"> Mangere Mt Roskill Northcote N16 Superlot	November
Regional build programme	s9(2)(j)	November
Regional build programme	Porirua business case s9(2)(j)	January

Part C: A snapshot of our current state

1.0 Background

1.1 Roles and responsibilities as a Crown Entity

The Crown Entities Act 2004 is the principal Act governing the relationship between Housing New Zealand and the Crown. Housing New Zealand is described in Schedule 1 of the Act as a 'Crown Agent'. Crown Agents are the least autonomous category of Crown Entities in that they must give effect to Government policies.

Housing New Zealand's role as a Crown Entity balances government direction on the achievement of social objectives with operating in a business-like manner. It means we play a critical role in advising and supporting policy agencies with the practical realities of delivery against government policies.

Housing New Zealand's role and responsibilities are derived from three sources:

- Governing legislation, including the Housing Corporation Act 1974 and the Crown Entities Act 2004
- Crown social objectives for housing and services related to housing provided by Housing New Zealand
- Expectations of shareholding Ministers, which inform both our strategic direction over a four-year period (set out in the Statement of Intent) and our priorities for the coming year (set out in the Statement of Performance Expectations).

Housing New Zealand is governed by a Board, whose members are accountable to the responsible Minister. The role of the responsible Minister is to oversee and manage the Crown's interests in and relationship with Housing New Zealand. We report every quarter to the responsible Minister and the Minister of Finance to demonstrate performance against the objectives set out in our Statement of Intent. The Minister conveys the Government's expectations to Housing New Zealand and monitors performance. The Statement of Intent, Statement of Performance Expectations and Annual Report are tabled in Parliament.

1.2 The Public Housing Sector

Public housing is currently provided by Housing New Zealand and a number of Community Housing Providers (CHPs) registered under the Housing Restructuring and Tenancy Matters Act and subject to its regulatory powers and standards. From 2014, registered CHPs have received the Income-Related Rent Subsidy for eligible new tenants. Public housing is also provided by some local authorities.

At 31 March 2019, there were 11,067 individuals and families waiting for a house on the Housing Register¹. The majority (8,937, 80 percent) were classified as Priority 'A' (at risk).

¹ This is new applicants and does not include those on the Transfer Register

1.3 The Crown's Social Objectives for Housing

Government priorities for Housing New Zealand have undergone changes over recent years. In September 2018, the Minister set updated social objectives for Housing New Zealand. These objectives guide our work.

Housing New Zealand's social objectives are:

- providing good quality, warm, dry and healthy rental housing for those who need it most
- assisting tenants to sustain a tenancy; supporting tenants to be well-connected to their communities, to lead lives with dignity and the greatest degree of independence possible
- being a fair and reasonable housing provider, treating tenants and their neighbours with respect, integrity and honesty
- building and leasing additional houses in order to meet social need and fill housing shortages where they occur
- managing our housing stock prudently, upgrading and managing the portfolio to ensure it remains fit for purpose
- assisting neighbourhoods and communities in which we operate housing to flourish as cohesive, safe and prosperous places to live
- working with other agencies to achieve housing policy goals and improve tenant welfare
- providing services and products to support people accessing affordable housing.

The Government announced that these objectives will be enshrined in law in late 2019.

Each year the responsible Minister writes a Letter of Expectations to the Board Chair that sets out expectations for the year ahead.

1.4 Transition to become part of Kāinga Ora – Homes and Communities

The Government announced in October 2018 that the functions of the key housing delivery agencies – Housing New Zealand (including HLC) and the KiwiBuild Unit - will join together to be part of Kāinga Ora – Homes and Communities. This is an important step to consolidate key functions across the public sector to improve outcomes and will result in a significant amount of change for Housing New Zealand over the next 12 months. When Kāinga Ora is established, it will:

- lead urban development projects of all sizes
- be a world-class public housing provider with associated tenancy services and asset management responsibilities.

As part of the Kāinga Ora our people will make a significant contribution to transforming the way New Zealand urban areas are planned, designed and built.

A critical focus during the transition period is to maintain and gain our momentum, particularly relating to our customer focus, asset delivery and financial sustainability. We will continue to undertake our core functions of providing high-quality public housing and tenancy services and support the Government's delivery of transitional, affordable and market housing.

Transition planning is gaining momentum under the leadership of the Kāinga Ora Establishment Board and the work being undertaken by the Kāinga Ora Establishment Unit. The Chair of Housing New Zealand, Vui Mark Gosche, and the Chair of the Homes Land and Community (a subsidiary of

Housing New Zealand), John Duncan, are members of the Establishment Board, and some of Housing New Zealand's people are part of the Establishment Unit.

Establishment Workstreams

To deliver the transition and establishment programme, the Establishment Board agreed to three workstreams:

- Delivery Integration – led by Andrew McKenzie (Housing New Zealand)
- Policy and Legislation – led by Hilary Eade (Ministry of Housing and Urban Development)
- Entity Establishment – led by Jo Hogg (Ministry of Housing and Urban Development).

Under the Delivery Integration workstream, the Establishment Board has approved the creation of three interim groups/workstreams to consolidate land and construction activity across Housing New Zealand, HLC, and KiwiBuild over the transition period:

- Urban Development Group (led by Chris Aiken, Chief Executive, HLC)
- Construction Group (led by Patrick Dougherty, General Manager Construction Group, Housing New Zealand)
- Strategy and Investment Management Workstream (led by Gareth Stiven, General Manager Strategy, Housing New Zealand)

The establishment of Kāinga Ora will formally bring these organisations together, but these interim arrangements are enabling them to work more collaboratively now, to achieve greater alignment and enhance their collective delivery goals, and give greater clarity and certainty to the market.

Housing New Zealand's focus over the coming weeks and months is to continue supporting the transition planning while delivering all of our current services and build programme, as well as enhancing its focus on customers through our Customer Programme.

1.5 Government's Expectations for 2019/20

The Minister of Housing and Urban Development's expectations for Housing New Zealand for the 2019/20 financial year have been framed in the context of our transition to becoming part of Kāinga Ora. In the lead-up to become part of Kāinga Ora, we will be expected to work closely with the Kāinga Ora Establishment Board (responsible for overseeing the establishment of the new entity), and with the Ministry of Housing and Urban Development (HUD) and other relevant agencies.

The Minister's expectations also reflect the Government's broadened mandate for Housing New Zealand to focus on improving the current and future wellbeing of our customers, strengthening our community focus and maintaining and gaining momentum in providing warm, dry, safe housing that meets the needs of our customers.

These expectations include:

- working towards the Crown's social objectives
- supporting the establishment of Kāinga Ora
- placing tenants at the centre of what we do
- delivering state, affordable and market housing at pace
- providing greater transparency in delivery planning and reporting
- assuring financial performance.

2.0: Strategic Framework

2.1 The Role of Housing New Zealand

The Housing New Zealand Board has identified an expanded role for Housing New Zealand as a leader in housing people and influencing outcomes across the housing continuum. These roles relate to distinct housing outcomes where Housing New Zealand can make a direct contribution.

In September 2018 the Minister of Housing and Urban Development announced that the Crown social objectives for housing would be embedded in legislation in late 2019. The new objectives outline the ongoing expectations for Housing New Zealand and enrich our mandate to achieve good public outcomes for housing, customers, neighbourhoods and communities.

To become a world class public housing landlord

For our customers to live well with dignity and stability in their homes, it is essential for us to focus on understanding their needs and take a tailored, customer-focused approach to tenancy management. This is shaping our decisions about the types of homes and communities we build, and the way we deliver services. We also acknowledge the role the community and other social services play in supporting our customers to live well in, and connect with, their communities

A Public Housing Provider

Our changing tenant base and the changing dynamics of the public housing sector are creating challenges to how we deliver on our core role as a public housing provider. Our goal is to ensure that New Zealanders with housing needs have access to, and can sustain, tenancies for the duration of their need.

To achieve this we are incorporating a broader understanding of our tenants' needs into our decision making and service delivery model. This will enable us to deliver the right number of quality state homes in the right place and matched to their individual needs. We will renew and realign our existing portfolio of homes where necessary. We will also continue to support our tenants to sustain their tenancies and to move to housing independence, where possible.

Contributing to the affordability and accessibility of housing

We contribute to the affordability of housing through innovation and leadership, leveraging our land and scale, utilising the unitary plan for maximum growth and uplift, administering effective affordability products and increasing supply.

We are working to reduce construction costs, while retaining quality and improving performance, for all new builds by trialling new and innovative building materials and construction techniques. Our aim is to ensure these methods and materials are not only fit for the New Zealand context, but also are more readily available at scale across the sector.

Housing New Zealand's subsidiary HLC also contributes to affordability of housing in its role leading large-scale development projects on behalf of the Crown. The work HLC undertakes is not just about numbers of homes, it is also focused on creating improved infrastructure and amenities to strengthen and connect neighbourhoods and communities.

Housing New Zealand actively leverages the density uplift in the Unitary Plan to increase the supply of housing. Through the use of the Unitary Plan, we are able to maximise supply in Auckland city, improving the affordability of housing.

Contributing to the accessibility of Housing

Housing New Zealand has worked closely with tenants, a wide range of disability organisations, and other agencies including those from Ministry of Health and ACC, to co-design the new Accessibility Policy. We have also developed a series of operating principles or commitments to inform how we make decisions and interact with our customers around accessibility.

Providing supported housing

Supported housing refers to the provision of publicly funded housing where the coordination of housing and other services is essential to the wellbeing of the customer. Supported housing has a broader focus than emergency housing alone. It is a new approach to housing, providing warm, dry and safe short-term accommodation for people in need, along with tailored social support while they are there. It is aimed at recognising the potential need for housing solutions that support a broad range of people who are currently unable to access long-term sustainable housing.

Housing New Zealand is working with funders and service providers to increase the number of supported housing places including

- Community Group Housing
- Transitional housing
- Housing First
- Housing for specific target groups (including for ex-prisoners who are reintegrating into the community, and for at-risk youth)

2.2 Our Priorities

Our short-term priorities have been informed by our operating environment, our policy settings, and our intention to improve the outcomes for our customers. Our priority statements have been fine-tuned recently to focus on supporting our customers and communities and our ongoing commitment to provide warm, dry and safe housing for our customers.

For the 2019/20 year these priorities are:

- **Increase our understanding of our customers and communities and put their diverse needs at the centre of our decisions and actions**

As our tenants change we need to be focussed on making sure our service delivery stays relevant to their needs. The growing proportion with complex needs means we need to think more carefully about the best way to support them to sustain their tenancies and/or reach housing independence.

An improved understanding of their individual needs will enable us to shape the decisions we make today about the types of homes and communities we build and the way we deliver services.

- **Increasing the pace and scale of land and housing supply**

Housing demand remains high and affordability remains a challenging issue in New Zealand. We have made it a priority to increase the supply of new housing and release land, particularly in areas with significant affordability challenges, to deliver state housing and enable affordable housing.

- **Reduce the cost of building and, in turn, ensure our financial sustainability**

We need to focus on working more efficiently to ensure the scale of change required to our housing stock is financially viable and sustainable over the long term. To meet the required return rates and sustain our build activities we need to reduce our construction costs.

- **Optimising the management, maintenance and renewal of our homes**

Managing our homes well is a core capability for us as a public housing provider. We need to manage our homes effectively to ensure that they are financially sustainable and well matched to our customers' needs. This means maintaining and renewing our homes so they are warm, safe, and dry.

- **Strengthening the performance of the housing sector**

As the largest public housing provider in New Zealand, we have a key role to play in helping the housing sector to grow and succeed. With our scale, expertise and a clear government mandate, we are well positioned to show leadership in the housing sector.

- **Be a high-performing organisation**

Being a high-performing organisation is fundamental to ensuring the delivery of our strategic priorities. It has always been part of our strategic framework and we have formally added it as the sixth strategic priority for our organisation.

2.3 Performance Measures

We consider our performance in terms of both service delivery (i.e. activity and output classes), and outcomes (the difference we make through our activity). Our 2019/20 Statement of Performance Expectations measures performance across five output classes:

- OUTPUT CLASS 1 - sustaining tenancies and managing our homes
- OUTPUT CLASS 2 - new state housing supply
- OUTPUT CLASS 3 - public accountability and ministerial support
- OUTPUT CLASS 4 - enabling housing supply and home ownership, and
- OUTPUT CLASS 5 - services we provide to the Housing Agency Account

We have been developing a list of the outcomes to guide decision making and engage stakeholders on our performance. One of the next steps in this area is to develop appropriate outcome indicators as part of our performance measurement. As we transition to Kāinga Ora, we will be working with the Transitional Board, MHUD, the Treasury and EY our monitor on a proposed performance framework which will

- take into account both our service delivery and outcomes.
- guide development/refinement of existing measures to reflect the mandate under the new strategic setting.

This will enable us to articulate how our investment and activity contribute to the better public outcomes and the overall wellbeing of New Zealanders we service.

3.0: Putting our Strategy into Action

3.1 Our Customers

The requirements of Housing New Zealand's customers are changing

Demand for public housing has increased dramatically, while at the same time fewer people are leaving state housing, partly as a response to supply constraints in the housing market. While Housing New Zealand's build programme is responding to increased demand, the Ministry of Social Development's housing eligibility assessment prioritises applicants with high housing needs.

Over the past 10 years there has been an increase in applicants on the Public Housing Register with a high priority A rating. This means that Housing New Zealand is housing a higher proportion of households with high and complex needs.

The changing demographics of Housing New Zealand's customer base also drive changes to our housing and service requirements. For example, approximately 82,000 of Housing New Zealand's household occupants are under the age of 20, and 39,000 are under the age of 10 – nearly half of the people living in our homes. More than 30 percent of tenancies belong to sole parents.

Housing New Zealand also has an ethnically diverse customer base and this continues to grow. Currently 35 percent of Housing New Zealand's tenants identify as Māori, and 25 percent as Pacific Peoples. We have also seen growing numbers of customers from Middle Eastern countries including Syrian, Iraqi, and Afghani customers.²

Housing New Zealand's customers can have high and complex needs

While many of our customers appear relatively independent or have low requirements, Housing New Zealand identified groups of customers with specific needs, behaviours, or circumstances that require a tailored service or home to enable them to live well. These include customers who:

- have mental health challenges
- have addiction and substance misuse issues
- are victims of violence and whānau harm
- are a risk to others
- have mobility and access needs
- have large whānau (including multi-generational whānau)
- are lonely and isolated
- are formerly homeless or are at risk of homelessness.

About 30 percent of our new customers placed from the Housing Register have one or more of these needs. Anecdotally, our frontline staff estimate it is even higher – potentially up to 50 percent. Fully understanding these needs will help us make informed choices about the service and housing response we provide, how we collaborate with service providers and funders, and the amount of resource we allocate.

Housing New Zealand has a significant programme of work underway to identify ways in which we can better deliver services to customers, reviewing the ways in which we can provide these, and giving our people the knowledge and tools they need to implement these changes. Some changes

² Note that customers can identify as more than one ethnicity.

will be dependent on external funding and on other agencies such as the Ministry of Social Development and the Ministry of Health.

Customer Strategy

Housing New Zealand has set a goal to be a world-class public housing provider.

Housing New Zealand's Customer Strategy, which was signed off by our Board at the end of last year, outlines Housing New Zealand's vision – 'Our customers live well, with dignity and stability, in connected communities', and recognises that a more tailored approach to service provision and housing is required to better meet the needs of our Customers.

The Strategy has provided three outcomes that we can directly influence through our role as a public housing provider:

- Stability – state housing provides stable accommodation for customers that need it
- Safety and security – customers feel safe and secure in their homes and communities
- Connection and participation – customers are connected to their communities, and participate in community life.

Customer Programme

Housing New Zealand's Customer Programme has been established to help us deliver on our Customer Strategy and ensure our assets and services are tailored to our customers' needs. This is a significant programme of work that will deliver changes to our service delivery model, policies, processes and technology to enable it to be a truly customer focused organisation.

Changing to a customer focussed model requires improved relationships with our customers, a more personalised approach, and will encompass core asset management and landlord services.

Importantly, the new model will acknowledge the role that the wider community plays in the lives of our customers.

Service Delivery

A review of Housing New Zealand's current service model was undertaken, shaped by feedback received from Housing New Zealand's customers and staff. The review made a number of recommendations to help support customers to live well in their homes.

The below concepts summarise how Housing New Zealand will deliver its services, and provides the basis upon which it will design its operating model:

- Great placement - an improved approach to placement based on understanding our customers and taking a sustainable approach to matching them with suitable homes.
- Build early relationships - a focussed and structured approach to on-boarding and settling customers into their new homes and communities.
- Be a better landlord – core services that are efficient and "just work".
- Help customers live well – strong customer relationships that facilitate support for additional needs above and beyond our core 'landlord' services allowing our customers to live well.
- Develop capable, connected, and safe communities – a wider more deliberate role is developing and supporting customers in their wider community
- Support into private housing – assisting customers to achieve and sustain state housing independence.

This is going to be a significant shift for Housing New Zealand and engagement with customers, stakeholders and our people will be ongoing throughout the process, so that together we can design our services and future operating model.

Over the next few weeks the Programme Team will be focussed on establishing streams of work and securing resources to progress the delivery of a detailed design of services in line with the key concepts. Alongside this, the Programme Team have identified a number of actionable opportunities planned for immediate progression to improve how we support our Customers.

The resulting business case for the next stage of the Programme will be presented to Housing New Zealand Board in August 2019.

Community Group Housing provision

The Community Group Housing (CGH) programme provides an affordable housing solution to community groups offering a variety of services, including long term residential care, to the most vulnerable people in New Zealand. CGH targets groups that provide housing and support services for those with physical, intellectual and psychiatric disabilities, residential alcohol and drug services, women who require refuge, transitional housing, youth at risk, and prisoner reintegration.

To be eligible for a CGH property, a provider must have a funding contract with the Crown to provide residential services for targeted groups. Once a provider's eligibility is confirmed, CGH will source a suitable, fit-for-purpose housing solution that meets the needs of the provider, and their service provision.

CGH offers a rent support subsidy to eligible providers to assist them in meeting their rent charge. Most CGH tenancies operate under a residential tenancy agreement and fall under the legislation of the Residential Tenancies Act 1986.

We have 1,500 homes that are part of the Community Group Housing programme, providing 5,149 bedrooms. During 2018/19 to 31 May 2019, the programme added 13 properties to the Community Group Housing portfolio through either new builds (two properties) or buy-ins (11). These homes were provided to six different community groups across the country.

The portfolio is valued at around \$619 million. In 2018/19 to 31 May 2019, \$4.1 million has been appropriated for rent support subsidy to providers, and \$13.9 million for the market rent shortfall. A further \$5.8 million has been appropriated for Housing New Zealand to acquire or to upgrade CGH properties.

Sustaining Tenancies Initiative

As a public housing provider, our core role is to ensure that those in need have access to warm, dry and safe housing. Housing New Zealand provides homes to people with serious housing need who are often at a crisis point in their lives. Many of these people have wide-ranging issues; including drug and alcohol problems, anti-social behaviour and varying degrees of mental health issues. State housing provides them with time to stabilise and rebuild.

In 2017/18, we adopted a new focus on sustaining tenancies. This was put into action with the launch of the new Customer Programme, to progress various initiatives to give our customers access to the support required to sustain their tenancy.

As part of this new approach, Housing New Zealand developed an Intensive Tenancy Management (ITM) - Te Waka Urungi function to provide better support for the five percent of customers identified as most at risk of poor wellbeing outcomes. ITM is a service, connecting tenants that require targeted support, to specialist service providers in order to live well in their homes and communities. In September 2018 our service became fully operational and now consists of 24

staff across 4 regions. We have commissioned an evaluation of Te Waka Urungi and will use this information to improve our approach to helping our customers sustain their tenancies. In addition to this service we have been working more closely with our communities and taking greater care with placement decisions to better support the people we house.

The term 'Supported Housing' refers to housing customers who receive intensive support to live in their homes, such as through our Community Group Housing model. Demand for Supported Housing is increasing, so we are looking at how to provide better outcomes for those with specific housing and support needs.

To create meaningful change we need to become a more empathetic public housing provider, thus modifying some of our policies and practices to reflect this change. Two early changes that we have made were to our policies surrounding pets and drugs and addiction.

Pets

Housing New Zealand has moved to a more permissive policy for pet ownership. Customers are now allowed to keep a pet in their home providing the property is suitable to house a pet and meets other conditions that are explained by staff to tenants when they request permission.

Drugs and addiction

Housing New Zealand views drug use as a health and addiction issue, and will support our customers rather than penalise them. Housing New Zealand will liaise with addiction and counselling services to help support the customer to sustain a healthier and more stable life.

In September 2018 Housing New Zealand released its Methamphetamine report. The report detailed to what extent customers were unfairly treated, why we applied the procedures we did, what procedures existed to determine and review our policies, and what assistance may be appropriate to address unfairness. We reached out to the people affected and processed 982 claims paying out \$4.1 million in assistance payments.

Housing New Zealand is focussed on applying the learnings of the report. Steady and deliberate change is underway to improve the outcomes for its customers, both now and in the future.

Housing New Zealand is developing new initiatives aimed supporting our tenants and their families to stay in state housing for as long as they need it and to improve their overall wellbeing. Development of such initiatives will be on-going, but there are a number of initiatives currently underway.

Greys Avenue

Housing New Zealand will be redeveloping our well-known site at 139 Greys Avenue in central Auckland. We will be housing more people in a supportive housing environment which will help our tenants live more stable and productive lives.

The Greys Avenue project represents a "flagship" model for how Housing New Zealand can adapt to meet the changing and often complex needs of our customers. The development will not only provide new fit-for-purpose homes in a modern building which meets the needs of our current and future customers, but will also provide 24/7 on site support services, wrapped around a strong tenancy-focussed approach in the central city, which is close to key services.

The supported housing model for Greys Avenue aligns with three of the four 'capitals' in the Treasury's Living Standards framework: physical, human and social. It is designed to support customers to improve their wellbeing through tailored and comprehensive support, opportunity for learning and training and opportunities to be part of a thriving community.

This project has also involved extensive engagement with key stakeholders including customers, agencies, iwi, council and other members of the local community.

Greys Avenue will feature:

- 276 apartments with space for social enterprise, service provision, other amenities and communal space to enhance the living environment and significantly lift the utility of the building
- up to 80 of those units to be designed for higher and complex needs tenants, many of whom are currently homeless
- there will be 24/7 comprehensive on site wrap-around services for all tenants
- 76 units are proposed to be rented to non-IRRS households to support a vibrant urban mixed community. This is subject to policy approval.
- access to services for all tenants including those residing in neighbouring the Lower Greys complex – health care, counselling, budgeting, education, employment assistance and skills development
- laying a platform for customers and partners to develop and deliver a vibrant urban community
- help for customers to live more stable, productive lives
- better support, increased wellbeing, fewer preventable hospitalisations and reduced offending, leading to a higher degree of sustained tenancies and reduced costs to the health and justice systems.

The proposed development reflects Housing New Zealand's focus on optimal means of providing well-organised support for New Zealanders in need.

The redevelopment was approved by the Housing New Zealand Board in May 2018 and in July 2018. Demolition is currently underway with construction to begin early 2020. The building is due to be completed and fully operational with tenants moving into new homes in late 2022.

Healthy Homes Guarantee Act Compliance

Housing New Zealand has until 1 July 2023 to ensure that all its properties comply with the Healthy Homes Guarantee Act (HHGA) requirements. Implementation planning has begun. Estimating compliance rates is challenging without inspecting each property. In some cases records are readily available (for example, insulation), but in some cases we have to make assumptions because we don't centrally record things like living room size and customers would not always report drafts.

Current estimates are that compliance is likely to cost around \$258 million or more and the majority of our properties will need some kind of work to comply. We also expect to find other essential work when properties are assessed, this is likely to result in additional cost of \$42 million or more. Housing New Zealand has previously indicated to Ministers that it will fund the costs through its balance sheet.

In some cases we have a head start through past programmes, for example over 43,000 of our properties already have kitchen rangehoods as at November 2018. The funding cost is also reduced because around 12 percent of the estimated cost is already budgeted for in our Long Term Investment Plan, either through retrofit, complex remediation, or redevelopment. A further \$50 million is estimated to be expenditure brought forward from our retrofit programme in out years. Funding implications will be considered through a programme business case to the Board in mid-2019 that will look at the opportunities provided by a programme of this size, as well as the usual budget and Long Term Investment Strategy process. The added pressure of this cost, in addition to our build programme, could result in a need to revisit the scope and limit of our

borrowing protocol. This would require approval from the Minister of Finance and Minister of Housing.

Homestar 6

From 1 July 2019, all single and double storey homes Housing New Zealand builds will be certified Homestar 6 to ensure that they are warmer, drier, healthier and cost less to run than a typical new house built to the New Zealand building code. Homestar is a comprehensive, independent national rating tool, run by the not-for-profit New Zealand Green Building Council that measures the health, warmth and efficiency of New Zealand houses. A home is rated on a scale from 6 to 10.

Accessibility

Housing New Zealand understands the importance of accessibility in homes for people with disability and mobility related needs. As at 31 May 2019, 26 percent of all occupants in Housing New Zealand properties recorded living with a disability.

The needs of customers differ from person to person and they may change over time. Presently, we have 3,710 properties that have been modified to accommodate disability needs. Often even modified properties will require new modifications to address a customer's specific needs. When such modification is needed, we work closely with tenants, funders such as Ministry of Health and ACC, support services such as occupational therapists and contractors, to ensure the needs of our customers and their household are met.

Where possible we also incorporate accessibility features into building new homes and in redevelopment projects. For new builds, we incorporate the concept of universal design into our Housing New Zealand New Build Standards and we have 'accessible units' as a type of standardised design catering to those customers and their households with mobility-related needs. In these cases, we try to ensure easy access into the house as well as incorporating accessibility features in the bathroom and other design amenities elsewhere. We anticipate the need for more accessible units to grow in future.

We have been working together with our tenants, a wide range of disability organisations, and other agencies including those from Ministry of Health and ACC, to co-design our new Accessibility Policy. We have also developed a series of operating principles or commitments to inform how we make decisions and interact with our customers around accessibility. The policy includes;

- a review of our standards for new build properties, in order for us to best meet the current and future needs of our customers
- a proposal for an initial target for Housing New Zealand's new builds meeting universal design standards
- consideration on how best to improve accessibility within our homes and develop a future target as part of our Retrofit Programme
- innovative "co-living" design solutions for those tenants and their families with specialised needs
- streamlining and revising the existing housing modifications process and
- actively improving information collected and maintained on our assets and our customers to support our aspiration of having an accessibility target for all our new and existing homes over time.

In 2019/20, we will continue engaging with our tenants and key stakeholders on the development and implementation of this new policy as well as monitoring and reporting on progress against the new target.

Smart Homes

Making our homes warmer and drier is a key part of our renewal programme, which is providing better homes for tenants. To ensure we are doing the best we can to improve our homes, we need to know more about how they perform in terms of temperature, humidity and carbon dioxide. A pilot is underway to install sensors in 160 properties across Palmerston North and Lower Hutt.

The purpose of the pilot is to understand how data from the sensors can best be used to:

- inform senior leadership investment decisions
- support organisational learning regarding the performance of our properties
- raise tenant awareness of the impact of how they live in their home can have on its performance.

The Palmerston North properties are part of the Te Tihi programme and have all benefitted from the Warm and Dry Programme. The Lower Hutt properties are part of the Hutt Valley Retrofit Programme. The sensors record readings every 30 minutes from the lounge and bedrooms in each property. In addition, the Hutt Valley properties provide readings from the bathroom and kitchen for each property.

The pilot will continue through to December 2019 with a focus on lessons learned from the sensor installation and how the data can best be used to support Housing New Zealand and our tenants in ensuring their homes are healthy. Given the value the pilot has already demonstrated we are now commencing planning for sensors to be installed in 2,000 properties nationwide.

Project Warm

Some Housing New Zealand customers are suffering from energy hardship and ready access to electricity could support tenants to live better in their homes if it encourages them to heat their homes to World Health Organisation standards for indoor temperatures.

Housing New Zealand, in partnership with Mercury Energy, has been exploring how it can facilitate cheaper electricity for its customers through different purchasing arrangements. This work has resulted in the Project Warm pilot which will test three methodologies:

1. best available deal (Housing New Zealand has negotiated this on behalf of customers)
2. capped rates (at a level that means almost all tenants will reach the cap in winter months based on past electricity usage)
3. 100 percent energy subsidy.

Through Project Warm, Housing New Zealand hopes to understand whether the use of these different arrangements will result in greater electricity usage. The results will enable us to make better informed decisions for our tenants.

The Project Warm pilot will aim to include around 300-400 homes, across Auckland and Christchurch and will run from 1 July 2019 until 29 February 2020.

Responding to Homelessness

As part of the Government's work to reset its housing agenda, HUD have been working on advice to address homelessness.

Housing New Zealand has been supporting this work by being part of workshops and providing feedback on draft reports. We have also confirmed the ways we can continue to contribute including:

- working closely with MSD to ensure a seamless service between us with a joint focus on those customers currently in transitional housing
- securing additional transitional housing
- contributing to the overall strategy and being a partner in the approach
- continuing to focus on delivering additional state housing supply.

Separate to this work we have been considering our longer term role in homelessness. For example, exploring a proposed role for Housing New Zealand in supplying permanent homes for chronic and episodic homelessness in areas where there is unmet demand.

Placing people in our state homes

Housing New Zealand has introduced a new approach to placing our customers. Our people now engage in more comprehensive discussions with potential or existing tenants before placing them in a new home, to get an in-depth understanding of the type of home and services the tenant needs, and closely match them to the place that is right for them.

Housing New Zealand places people in our properties from two registers: the Public Housing Register managed by the Ministry of Social Development and our own Business Initiated Transfer (BIT) Register. Applicants are matched to available properties through our placement function. We work property by property to undertake this matching. Careful consideration is given to whether the property is appropriate and the tenancy sustainable. We generally place tenants off the BIT Register first to enable our redevelopment programmes and to ensure housing is of the right size and in the right location to meet individual customer needs.

A total of 7,068 new tenancies were started in the 2018/19 financial year to 31 May 2019; compared with 6,923 in 2017/18; including both new applicants and transfers from other state housing. This figure excludes community group housing and transitional housing.

The Public Housing Register

The Public Housing Register is comprised of two different registers. The Housing Register is for new applicants, while current public housing tenants who have applied to transfer to another property are on the Transfer Register.

The Social Allocation System provides the criteria for acceptance onto the Public Housing Register. The policy for this system is developed by HUD and the system is administered by the MSD. In order to be eligible for public housing the applicant or family must be on a low income, be a permanent resident of New Zealand and have a housing need priority rating of either Priority 'A' (at risk) or Priority 'B' (serious housing need) as defined by the Ministry criteria.

The Ministry provides Housing New Zealand with a short list of 20 applicants that meet the requirements of an available property. These requirements include bedroom size, location and features such as modifications. Matching can also take into account requirements for special property features (e.g. level access or a wheelchair ramp), location requirements (e.g. close to certain schools) and factors such as gang affiliation.

In 2018/19 as at 31 May 2019, we provided housing to 4,999 Priority 'A' applicants and 99 Priority 'B' applicants from the Housing Register.

The Business Initiated Transfer Register

Housing New Zealand maintains its own register of Business Initiated Transfers (BIT). These are tenants who require a transfer to a different house for a number of reasons including their

current home being redeveloped, undergoing major repair or the lease expiring. Other reasons include a household underutilising or seriously overcrowding a property.

In the medium term, as we scale up the volume of development work, it is likely that an increasing proportion of our placements will be from the BIT register. This will need to be carefully managed and will depend on the extent to which demolitions are required to enable intensification.

In 2018/19 as at 31 May 2019, there were 1,832 placements from the BIT register compared to 1,466 in 2017/18.

Placement Support Specialists

Our Placement Support Specialists assist with matching applicants to suitable properties and work with Tenancy Managers to match properties within the required timeframe.

Interagency Operations

Our Interagency Administrators manage communication with MSD concerning enquiries about placement, rent, fraud, transfer requests that do not meet BIT criteria and reviewing tenancies. They also manage our BIT processes.

Customer Support Centre

Housing New Zealand's Customer Support Centre (CSC) operates a 24/7/365 service. Core hours are between 8am and 6pm, Monday to Friday, with urgent calls only outside these hours. The CSC operates from two locations: Porirua (89 people) and Manukau (79 people). It operates as a virtual site with any tenant call able to be answered at either location. The CSC is both an inbound call centre as well as a processing unit doing administration work and making outbound calls for debt follow up and responding to service requests coming in through new technologies like MyHNZ.

In 2017/18 the CSC processed 770,000 total calls, a reduction of 70,000 calls from the previous year. These were:

- 748,000 to the main 0800 801 601 line, and
- 22,000 via Core Hours Urgent Response (CHUR) line. The CHUR line is specifically for our contractors and Tenancy Managers.

The reduction is primarily related to our focus on reducing the longest wait time's thereby reducing abandoned call volumes, and gradual uptake of tenant self service portal MyHNZ. Lower abandoned call volumes alone made up 45,000 of the reduction.

For the 2018/19 year to 31 May 2019, the CSC answered 669,358 total calls. These were:

- 651,860 to the main 0800 801 601 line, and
- 17,498 via Core Hours Urgent Response (CHUR) line.

Based on these numbers the CSC is forecasting 700,000 calls by June 2019.

3.2 Managing and Investing in our Portfolio

3.2.1 Investing in our portfolio

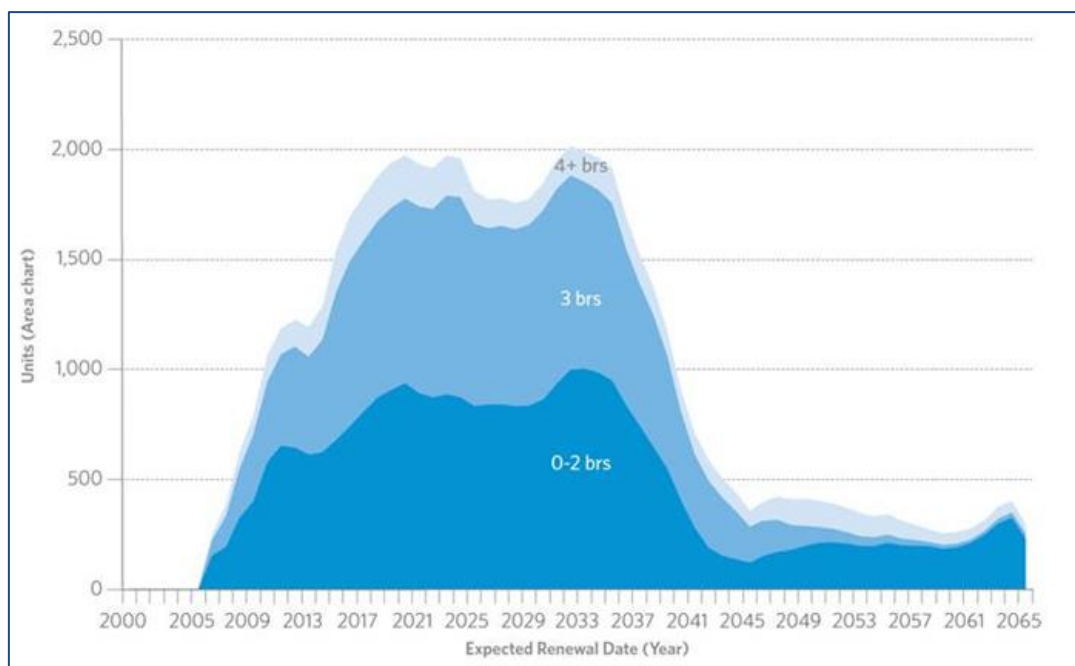
Our Asset Planning Framework

To deliver quality housing for our customers we must to continue to develop our housing stock to meet the needs changing customer base. The growing demand for public housing means Housing

New Zealand obtains housing in a number of ways. We maintain and refurbish our existing houses, build new fit for purpose houses and where needed we lease houses from private and community owners.

Over the next 30 years we face an unprecedented renewal challenge for our housing portfolio. Some 52,000 homes of state homes will require significant capital reinvestment over this period.

Figure 1: Number of properties needing renewal



In addition, demand pressures are large, with 11,067 applicants on the Housing Register and a further 2,407 on the Transfer Register (i.e. a total of 13,474 on the Public Housing Register) as at 31 March 2019. There is a strong need for immediate and enduring growth of public housing.

Housing New Zealand must ensure that the income it receives, including Income Related Rent Subsidies (IRRS) paid by HUD, is sufficient to cover the costs of building, maintaining, operating, and renewing state homes and providing tenancy services. At present, rising demand, rising construction costs, land prices that vary considerably across the country, and low rents in some locations make this challenging.

In order to support our investment decision making on our portfolio Housing New Zealand has developed a comprehensive asset planning framework which aligns Housing New Zealand's strategic plan with the provisioning of fit-for-purpose homes and communities for our customers in a sustainable manner. This framework is based on New Zealand Asset Management Steering Group (NAMS) best practice and signals the organisation's intention to operate in a businesslike manner within its current settings.

Our **Long Term Investment Plan (LTIP)** outlines Housing New Zealand's investment objectives and the funding and financing needed to ensure the long-term financial sustainability of the organisation. A 30-year horizon is modelled given that the majority of our assets will reach major lifecycle decision points within the next 30 years. This period also encompasses our significant reconfiguration and growth challenge, and enables us to deliver an investment programme that will be sustainable beyond the 30-year mark.

The key investment objectives that the LTIP addresses and the measurable outcomes it is seeking to achieve are:

- provision of well matched, safe, warm and dry homes that tenants can afford to operate within their means
- growing state housing stock to meet increased needs within available resources
- the financial sustainability of the organisation over the long term
- important trade-offs between these objectives. Within any given level of funding, there is a trade-off between the:
 - quality of homes that Housing New Zealand is able to provide
 - quantity of homes that it can provide, and
 - timing and location of provision or renewal.

Housing New Zealand's current LTIP was approved in June 2018. It is currently being reviewed to reflect challenges to some of the key assumptions that underpinned it and the Board approved 2019/20 budgets. The revision will provide a baseline input into the Kāinga Ora LTIP and will also inform our request for an uplift in our debt protocol later this year. It is anticipated the revised Housing New Zealand LTIP will be a key input into the development of an integrated LTIP for the new organisation.

Our **Asset Management Strategy (AMS)** articulates the strategic decisions our Board has made around where, and how, we will deliver our asset programmes in a sustainable manner over the next 10 years for our customers. It articulates how, as a long term asset owner, we will manage the varying lifecycle requirements of our existing assets to provide warm, dry and safe homes for our customers that they can operate within their means and to safeguard the Crown's investment. It also sets out how we will realign our portfolio to meet the needs of our existing and future customers.

The AMS provides the operational parts of our business with a clear decision making framework for managing our assets, and a strategic framework for the delivery of our Investment Plans and Asset Management Plan.

In 2018 we refreshed our Asset Management Strategy 2018-2028 following consultation with the Housing New Zealand Board and Investment Committee, MBIE, the Treasury, MSD and the Minister's Office. This ambitious 10-year programme of work will deliver a fit-for-purpose national portfolio of quality state homes aligned with priority demand, tenant service levels, property quality standards and the purchasing intentions of the Ministry of Social Development.

AMS 2018 is consistent with the LTIP in that it:

- represents a baseline plan for managing the state housing portfolio
- sets out how we will ensure that our responses align to our goals and ensure that they are appropriate to the age and condition of the asset, the area it is located in, and tenant requirements.

Our **Investment Plans** translate the AMS direction for our Auckland, Wellington, Christchurch and Regional New Zealand portfolios by setting out the demand drivers, levels of service, approach and associated operational budgets that have been set aside to enable us to meet our desired outcomes in these areas.

The *Regional Investment Plan* was approved by the Board in August 2018. It responded to unprecedented demand in the regions. In line with AMS 2018 and our approved 2018-22 budgets, it will result in over the four year period of the document:

- approximately 900 additional net homes (or 1,400 gross) in our regional centres, regional hubs and high growth towns
- the lifecycle of 1,580 existing assets being reset through a mix of retrofit, rebuilding (through the redevelopment programme) and selling and replacing
- the sale of 170 assets that are no longer fit-for-purpose

Following the Kāinga Ora announcements interim Auckland and Wellington Investment Plans are being developed in line with the revisions to the Housing New Zealand LTIP to provide guidance to the business until such time an integrated AMS is developed. These interim plans will respond to AMS 2018 but reflect more recent developments such as the Treasury Porirua Business case, HLC business case revisions (e.g. Northcote), approved budgets and revised phasing around cost assumptions.

Decisions have been made at this stage to hold off the development of a Christchurch Investment Plan with resource being refocussed on supporting the development of the revised interim Housing New Zealand LTIP and the integrated LTIP for the new organisation.

Supporting our strategic level planning framework is our investment decision-making documents. These include:

- **Area Plans** which are currently under development to translate our functional strategies (AMS/Investment Plans and Customer Strategy) into action plans for individual areas. In related work, we are working with HUD on their place-based initiatives. There will be a strong focus in these documents on understanding local needs and priorities – across asset, customer, and community outcome domains.
- **Programme Investment Cases** e.g. Northcote. These documents are developed for areas that generally have high levels of concentration or contiguous blocks of land that require a particular intervention (e.g. master planning).

Supporting the delivery of our planning documents is our:

- **Asset Management Plan (AMP)** which provides operational level guidance around how we will deliver on our AMS. It sets levels of service, ascertains gaps in our asset management performance and outlines how those will be addressed through planned asset approaches, activity and budgets.
- **Housing Investment Framework (HIF)** which outlines how investment activity by Housing New Zealand balances financial sustainability with maximising social outcomes. It outlines the process for how Housing New Zealand delivers investments in its housing assets, that respond to and align with to the strategic direction set out in the AMS and LTIP.

Housing New Zealand's performance in managing investments and assets is assessed on a regular basis by Treasury through the Investor Confidence Rating (ICR) process. Following the 2018 assessment Housing New Zealand maintained its 'A' rating since its first assessment in 2016.

The role of HLC – Homes Land Community

HLC is currently a subsidiary of Housing New Zealand originally set up to undertake a large-scale development at Auckland's Hobsonville Point on behalf of the Crown. HLC will become part of the new Kāinga Ora organisation and is currently part of the interim Urban Development Group.

Over the past few years, HLC's role has expanded to include leading other large-scale developments on behalf of the Crown, and delivering the master-planning and land development aspects of Housing New Zealand's Auckland Housing Programme. It delivers builder-ready land for state, KiwiBuild and market housing. Housing New Zealand delivers the state housing within these wider HLC-led neighbourhood precinct redevelopments.

The Construction Group (formerly Housing New Zealand's Asset Development Group) and HLC work together on large scale projects, especially in Auckland. To deliver the Auckland Housing Programme (AHP) as effectively and efficiently as possible, Housing New Zealand and HLC agreed core responsibilities. The Construction Group continues to focus on its core business – delivering fit-for-purpose public homes, including mixed-tenure projects. HLC focusses on its strengths – large-scale master-planning and enabling the delivery of market and affordable homes through the sale of redevelopment land.

This streamlines how we engage with our build partners and stakeholders (such as Auckland Council) to drive the efficiency and innovation we need to deliver the AHP. There will be only one buying agent when acquiring property, for example.

Housing New Zealand, as landowner, will specify its overall requirements for large-scale redevelopments. HLC will lead comprehensive master planning.

Housing New Zealand collaborates with HLC in the preparation of the masterplan through:

- providing relevant information that will inform the context for the development, including policy settings, current public housing provision, portfolio status/statistics, public housing drivers and portfolio needs
- contributing to the determination of a master plan that optimises the objectives of Housing New Zealand as a public housing provider and long-term investor
- agreeing the optimum provision of public housing – location and typology.

HLC lead the preparation of the Programme Business Case(s) with assistance from Housing New Zealand in terms of the wider strategic, programme level and public housing requirements. Housing New Zealand endorse the Business Case(s) prior to presentation to the Housing New Zealand Board. The Construction Group prepare the Business Case(s) for the public homes.

The Business Cases are presented to the Board for approval (possibly at different times depending on sequencing and approach). Once approved:

- HLC will create the super lots (for market and affordable housing) and undertake civil works so that all the infrastructure is in place (including for the state homes)
- HLC will lead the process to sell the superlots for market and affordable housing.

The Construction Group will receive from HLC the superlots ready for construction for public housing, including mixed-tenure, and build all of the state houses and lead all tenant related activity

Housing Supply

Housing New Zealand is increasing the supply of state and affordable homes to help meet the increased demand for housing. On average Housing New Zealand completes construction of four new homes a day. We are using the land we own more effectively, demolishing old homes and replacing them with over three homes on that land.

Housing New Zealand will provide 1,100 net additional state homes each year from June 2018 through to June 2022. These homes will consist of new builds and redevelopments combined with leasing and buying some homes. Currently there are over 9,200 homes in our future pipeline and

forecast (over the periods 2019/20 to 2025/26). There were 2,703 state homes under construction or under contract at the end of May 2019.

Table 1: State houses programme at the end of May 2019

	2018/19	2019/20	2020/21	2021/22
Delivered	785			
State house contracted or under construction	617	1441	645	0
State houses in procurement and planning for delivery*	0	791	2081	2415

*Includes projects in Procurement/Feasibility planning. Projects might be delivered across financial years.

Over the past year we have scaled up our build activities in the main centres and the regions and we now have a number of significant developments underway to increase the supply of safe, warm and dry homes across New Zealand. We are also working smarter and adopting more innovative, efficient and sustainable methods for delivering and financing our build activities.

Auckland Housing Programme

Housing New Zealand launched the Auckland Housing Programme on 1 July 2016 to address demand pressures through the delivery of 11,000 state houses and 12,600 market or affordable houses over a 10 year period. The first four years of the AHP are focused on 'building the runway' to ramp up housing supply in Auckland and establish large-scale activity and 2018/19 represented year three of the programme. We are currently reviewing the AHP and an approval will be sought on an interim Auckland Investment Plan in early 2019/20 to stand in its place following agreement of a revised Long Term Investment Plan. We plan to apply the lessons learnt from our AHP to our current and future programmes.

Key large scale projects

Northcote

The Northcote development was launched in 2016. This was the first project to get underway as part of the Auckland Housing Programme. The approximately 380 existing state houses will be replaced with approximately 1,500 new state, affordable and market homes over six years. As well as much needed new, warm, healthy homes, Northcote residents will see better transport links to the North Shore and central city, improved infrastructure and new and rejuvenated public spaces.

There will be approximately 470 new Housing New Zealand homes and just over 1,000 additional affordable/market homes.

Mangere

Mangere is a significant development for Auckland, which will replace approximately 2,700 state houses with up to 10,000 new healthy homes over the next 10-15 years. This will include around 3,000 new state houses, as well as 3,500 affordable homes and 3,500 new market homes.

Mt. Roskill

Around 9,500 new, high-quality, healthy homes will be built in the Mt Roskill development over the next 20 years replacing 2,480 ageing existing homes in the area. The new development will include approximately 3,000 state homes, 3,500 affordable homes and 3,500 homes for the open market. The redevelopment at Mt. Roskill will deliver around 9,500 homes to Auckland over a 20 year period.

Porirua

Announced in November 2018, the Porirua regeneration programme will renew and build 2,900 state homes and at least 2,000 affordable and market homes in Porirua.

Many of the 2,000 state homes in eastern Porirua will be replaced with a mix of new warm, dry high quality public housing as well as affordable and market homes. These include the suburbs of Ascot Park, Waitangirua, Cannons Creek and Ranui.

139 Greys Avenue - Auckland

Around 276 new apartments will be built at this Auckland CBD location with at least 200 retained as state houses

Up to 80 units will be designed for higher and complex need tenants, many of whom are currently homeless.

Hutt Valley

Housing New Zealand's build programme is ramping up delivering more state housing in the Hutt Valley. Four new 4 bedroom homes have been built and were ready for new tenants in March this year. Over the next two to three years an additional 269 state houses will be delivered, with four sites in Lower Hutt under construction and the first of 83 new state homes to be ready for people later this year.

Wellington City

Housing New Zealand is investing \$48.5 million to build 145 new state homes in Wellington City.

Regional housing

In the four years to June 2022, Housing New Zealand is aiming to have renewed around 1,500 homes and delivered approximately 900 additional homes in regional centres. These homes are being built on Housing New Zealand's vacant land and better utilised landholdings.

Marfell – New Plymouth

Housing New Zealand is delivering 68 three and four bedroom KiwiBuild homes in Marfell, New Plymouth. The first homes are expected to be ready from late 2019 and the remainder by early 2020. Alongside the KiwiBuild homes, Housing New Zealand is also building up to an extra 20 state homes in New Plymouth over the next four years.

3.2.2 Achieving our build programme

Housing New Zealand has developed a number of strategies and programmes to help overcome some of the challenges faced with achieving our build programme.

Supplier Strategy - Innovate Partner Build

As an organisation we are heavily reliant on a number of other organisations supplying us with services and materials. Of the \$1.8 billion we spend each year over 90 percent goes to external organisations. We are now moving to longer-term partnerships with our suppliers through the Innovate Partner Build (IPB) programme, formerly known as the Large-Scale Supplier Strategy. This is an organisation-wide initiative through which we will move to longer-term private sector partnerships and contracts with those suppliers who are willing and able to increase capacity to match the scale of the opportunity.

IPB focuses on reducing cost and increasing pace of delivery as well as improving the quality of homes and their components, plus ensuring excellent health and safety across our construction activities. To ensure the above can be achieved Housing New Zealand need to better leverage the

scale and long term nature of the build programme through focussing on five key areas; materials supply, labour supply, internal processes, regulatory approvals and inspections. The IPB programme is now in the delivery phase and has a number of deliverables underway.

Through Construction Partnering Agreements (CPA), we are contracting with performing construction partners for a minimum committed volume at a reduced price and capacity (normally 50-100 housing units per annum) over time, rather than on a project-to-project basis (requiring individual contracts each time), removing delays for Housing New Zealand and significant resourcing and red tape for our builders. KPIs built into these agreements include cost saving criteria, project deadlines and the requirement for a ratio of apprentices working on a particular redevelopment project.

Our aim is for the CPAs to be a vehicle that leads to a true partnering relationship with our builders, who will have the confidence to innovate, take on staff, invest in their businesses and so on. This has also included a review of contracts and enabled a shift from a punitive contract to an incentive based and balanced form of contract. Feedback from build partners and their consultants on the CPAs have been overwhelmingly positive. The Construction Group has also appointed a dedicated Commercial Market Director, whose job it is to enhance relationships between Housing New Zealand and the market, align our build intentions with our partners' expectations and facilitate effective communication with our suppliers.

IPB programme representatives have commenced market sounding with materials suppliers based on both sides the Tasman. IPB is also scoping a more efficient consenting process, which currently is a major delay for our build programme. We are also now building to standard, repeatable house designs and specifications approved by the councils. This means that regulatory authorities do not have to approve multiple designs.

Looking at ways to use the size of our property portfolio and order book to plug New Zealand's skills shortage is also part of IPB. We have 12 apprentices working in a range of trades with several of our build partners or sub-contractors. Use of apprentices is also a requirement of our CPAs.

We have presented the IPB programme to numerous government and industry stakeholders. Response has been very positive and most are keen to learn more and also to participate. Information on the IPB programme is included on our external website and was referenced as a component of the government's wider Construction Sector Accord which was launched on 14 April 2019.

The plan is to run the programme until the end of 2019/20 with three key areas; materials and labour, innovation and continuous improvement, and programme support/enablers.

The overall programme approach to procurement, considers the construction programme in tranches based on typologies and locations. This enables targeted approaches to be applied when engaging the market with a view to signing new or extending CPAs. Tranche 1 was for standard plan houses in Auckland, in which we are in the final stages of signing five build partners to build 1,350 housing units over the next three years. It is anticipated that this will deliver \$71.8 million over three years against our benchmark costs.

Follow on tranches are in progress for three level walk ups in Auckland and homes built to standard plan houses in the regions. It is also anticipated that the CPA framework could be further extended to include other typologies and for different purposes such as KiwiBuild or affordable houses.

In parallel we are assessing the opportunities for efficiency and savings across professional services costs throughout the development lifecycle, through coordinating our developments and the way we engage with consultants and architects.

In 2020 the programme expects to transition into business as usual Construction Group activity to enable new ways of operating efficiently and improving pace and scale through targeted initiatives with a continuous improvement approach.

Business Innovation

Innovation is seen as a key enabler to deliver our strategic objectives and development programme. We are working to identify, assess and integrate effective leading edge solutions to business opportunities and challenges across the entire spectrum of public and affordable housing provision, from feasibility to construction to management of complex tenancy challenges.

An example of this is the current work we are doing to develop our understanding of offsite manufacturing process and technology which enables Housing New Zealand to drive productivity, increase capability and expand capacity by using state of the art automation and efficiently leverages economies of scale.

Other examples of innovation work include:

- cross Laminated Timber (CLT) design research programme which seeks to optimise the amenity, design, delivery and lifecycle outcomes of our CLT buildings. Demonstration pilots will be used to test the outcomes from the research
- investigating the feasibility of using manufactured bathrooms for various typologies in Housing New Zealand's build programme
- refreshing and enhancing the suite of tools available to the business when scoping, designing and delivering projects as poor ground conditions, lightweight buildings and innovative new foundation systems converge
- working across the public housing sector and with government agencies, councils and NGOs to lead and co-ordinate the role of Housing New Zealand in addressing homelessness
- investigating alternative energy solutions e.g. solar energy
- investigating the costs and benefits of installing fire sprinklers in our homes, to improve the fire safety of our homes
- reviewing current rental debt practices within Housing New Zealand and identifying improvement areas
- investigating how Housing New Zealand demolition houses can be successfully relocated to land owned by iwi and other community groups, to provide vulnerable families with further public housing options or affordable home ownership.

Standardised Design

As part of our efforts to build more homes faster, Housing New Zealand has developed standardised designs for our homes. Standardised designs for different typologies and build types significantly reduce the complexity, duration and cost across the build process.

They enable more efficient material costing for each new home and will reduce our operational costs as we continually improve the way we work with contractors and build partners to ensure greater consistency in delivery.

While standardised designs help reduce build costs, we have sought, where possible, to ensure that our customers needs are not adversely impacted. As we understand more about our customers and their needs through the Customer Programme, these designs will be able to be adapted as necessary to allow us to address those emerging needs such as the ability to add a fully accessible module to a house.

Procurement Approach and Panels

Procurement is the process of obtaining people, goods or services required to deliver the products or benefits associated with the project or programme. This may mean anything from hiring contract testers, to purchasing a new system to a full-blown development associated with our asset portfolio.

Our Innovate Partner Build (IPB) programme and our clear long-term build programme is allowing us to work with our partners in new ways to achieve innovation and cost reductions, and to support them to scale up to meet our build requirements.

Housing New Zealand uses its size to leverage multi-year and large volume requirements across the organisation to reduce costs and give suppliers certainty to build capability and capacity.

Our aim is to incentivise the market to increase productivity, reduce costs along the supply chain, increase volume (on site or factory), increase build speed, create new methods of supply, and encourage investment, competition and market participants. Improved internal processes are expected to reduce average delivery time for a new home.

Housing New Zealand now directs the vast majority of its procurement activity through pre-qualified panels, with the intent being to align projects sequentially with partners, to ensure that costs can be optimised and downtime reduced to uplift industry efficiencies.

Housing New Zealand currently has almost 150 companies as panellists across the various construction related panels, which include construction, both traditional and offsite, and supporting professional services.

The Housing New Zealand panels and their membership are as follows:

- Offsite Manufactured Solutions Panel
- Housing New Zealand Redevelopment Panel Auckland
- Housing New Zealand Redevelopment Panel Christchurch
- General Reinstatement and Refurbishment Build Panel
- Architects Panel Auckland
- Civil Contractor Panel Auckland
- Complex Remediation Panel – Auckland, Wellington and Christchurch.
- Demolition Panel
- Housing New Zealand Regional Build Panel.

Housing New Zealand is currently expanding our panels into more regionally based suppliers to support the build programme, fostering relationships across all tiers of the construction sector and supporting economic development regionally.

Together these panels are creating procurement efficiencies and encouraging broader competition and price reduction through pre-agreed unit costs with our preferred build partners.

Supplier viability in the construction sector is an escalating risk with three of our panellists going into receivership last year. In all cases commitments outside of Housing New Zealand were the cause, and Housing New Zealand has not been significantly impacted.

This ongoing risk can be partially mitigated through the ongoing supplier relationship management processes and the requirement for an annual reconfirmation of financial positions and exposure. Opportunities to improve our understanding of developing supplier risks and

external due diligence, through use of improved market intelligence data and possible third party analytics are being explored.

Capacity across the construction sector and categories continues to be constrained and trade depth remains another key risk factor.

Procurement Contract Management and Supplier Relation Management

The Housing New Zealand Strategic Plan outlines the commitment to invest in improved contract management practice and capabilities, as a response to this commitment, the Procurement Contract Management and Supplier Relationship Management system project was initiated.

The project has identified that as an organisation, there are a number of improvements that we can make to ensure our contracts and supplier relationships are delivering value.

Housing New Zealand did not have a consistent set of processes and tools to review contracts or supplier performance nor a consistent process to how we store our contract and supplier related information.

The Procurement Contract Management and Supplier Relationship Management system project will improve contract and supplier relationship management and give Housing New Zealand the ability to:

- prioritise working with suppliers who deliver value
- ensure our suppliers are delivering to their agreed contract terms and conditions
- identify risks associated with different suppliers so they can be managed and mitigated
- better understand our different cost drivers and identify areas for innovation/improvement.

Building Consent Authority

Housing New Zealand is struggling to get building consents in a timely and cost-effective manner at the delivery rate of 2,000 units a year. With our increasing volumes, we do not have confidence that councils will be able to resource up to deliver consents at the pace required. Through the Innovate, Partner, Build Programme (IPB) Housing New Zealand is scoping a more efficient consenting process, which currently is a major delay for our build programme. Analysis undertaken on consents submitted last year determined they took an average of 84.5 elapsed days to process.

Within IPB, we have achieved qualified partner status with Auckland Council and are exploring other means of securing consents faster. We are also now building to standard, repeatable house designs and specifications approved by the councils; so regulatory authorities do not have to approve multiple designs for building consents.

To support the delivery of our build programme at scale and pace, Housing New Zealand presented a business case for an in-house based Building Consent Authority (BCA) to cater for Housing New Zealand state houses using standard plans. This business case was approved by the Housing New Zealand Board in April 2019. This will provide consenting services to about 80 percent of the volume of Housing New Zealand building consents. It will bring significant time and cost savings, efficiencies through reduced RFI's, and a closer working relationship between Housing New Zealand development teams and our BCA. This offers us the best opportunity to deliver the consent for the majority of our buildings within the timeframes required. Accreditation is expected by early 2020 and following successful registration to be fully operational shortly after.

We have been consulting with MBIE on the preparatory work needed to enable the Board of Kainga Ora to apply for registration as a BCA. Whether Kainga Ora can apply to be a BCA depends in part on the powers in the Kainga Ora Bill. Currently the Bill enables this, but the legislation can change before enactment, and the issue is being actively discussed by officials.

In a future phase we will consider transitioning to an arms-length operation, expanding to include KiwiBuild, look to include being a Territorial Authority, and work through the legal structure under Kāinga Ora.

3.2.3 Contributing to housing affordability through our build programmes

Housing New Zealand can contribute to housing affordability through a reduction in construction costs. By leveraging our large scale delivery programmes and our IPB programme, we can achieve economies of scale and reduce costs in our new builds, while retaining quality and improving performance. This also enables us to support the overall reduction of costs across the building and construction sector and to contribute to housing affordability.

Building more homes over a longer timeframe will involve multi-year contracts that reduce the risk involved with investing in cost saving capital and provide certainty when hiring (including apprenticeships). Through our Innovate, Partner, Build programme, Housing New Zealand is leveraging its scale to buy construction materials in bulk. This helps our own projects and those of our development partners to be delivered more efficiently and at lower cost.

3.2.4 Delivering Supported Housing

Supported housing refers to the ‘the provision of publicly funded housing where the coordination of housing and other services is essential to the wellbeing of the customer’.

Over the year we conducted a review of the Supported Housing model that considers how we can best deliver Supported Housing for customers in our homes. We presented this review to the Minister of Housing and Urban Development in December 2018 and following this we have been engaging with partner agencies, such as HUD and other providers.

In 2018/19, we made the following progress across various supported housing types:

Transitional Housing Programme

We have continued to contribute to the Government’s cross agency Transitional Housing Programme, led by HUD, which aims to ensure a sufficient supply of transitional housing across the country.

These houses provide a place for families to stay while their needs can be understood and addressed, and longer-term sustainable accommodation can be found. Since October 2016 we have contributed a total of 709 transitional housing places (within 655 individual units) as part of the cross agency response. The transitional housing portfolio consists of standalone houses, studio unit complexes, former (or repurposed) motels and rest homes.

In 2018/19 we contributed 52 transitional housing places within 39 individual units.

Funding

The Crown has agreed to provide a loan facility of up to \$127.342 million (CAPEX) to Housing New Zealand for a term of 10 years to enable it to build, buy or lease additional transitional housing supply. To date, we have drawn down \$127.265 million.

Transportable Housing Pilot

We have also commenced a transportable housing pilot to evaluate if transportable units are a viable solution for increasing transitional housing supply. In 2019/20 we will be installing 20 fully

contained one bedroom transportable units at eight suitable sites across Auckland, Rotorua and Hamilton.

Housing First Support

Housing New Zealand, along with Community Housing Providers (CHPs), private landlords and iwi will continue to support HUD's Housing First programme by providing housing places. Housing First is a proven, internationally recognised approach to housing and supporting homeless people with multiple, high and complex needs. Housing First's approach is to provide housing quickly and then offer tailored support for as long as it is needed to help people stay housed and address the issues that led to their homelessness. The programme launched in Auckland with Government and Auckland Council funding in March 2017, and expanded to Christchurch, Tauranga and Hamilton in 2018. The programme is also being established in other regions including Wellington, Rotorua, Napier and Hastings, Whangarei and Northland and Blenheim and Nelson.

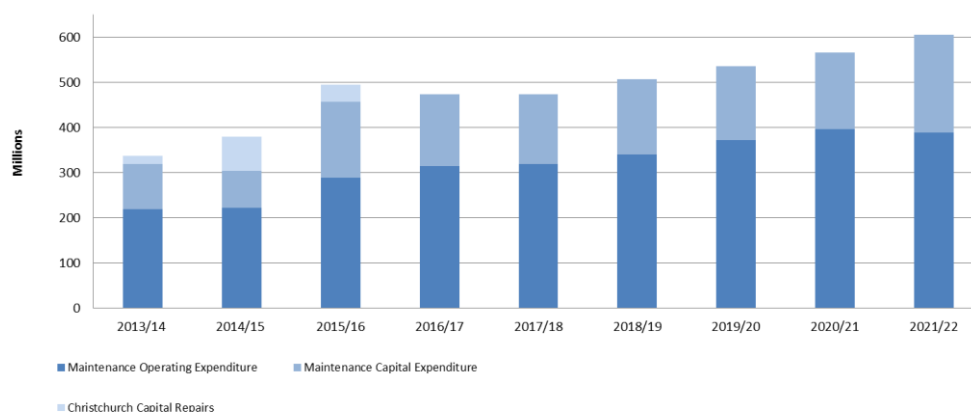
3.2.5 Maintenance and Renewal

The Maintenance and Renewal programme is one of the three programmes implemented through our Asset Management Strategy. The others are New Supply and Disposals.

Maintenance focuses on maintaining the condition of housing at agreed service levels, while renewal focuses on improving the performance of housing from either a lifecycle or a customer outcomes perspective. These are not mutually exclusive groups of activity and some programmes overlap. Activities undertaken include routine and planned maintenance, responsive and vacancy repairs, upgrades, retrofit and complex remediation.

In 2018/19, Housing New Zealand anticipates spending \$506.7 million of operating and capital funding on maintaining, upgrading, and retrofitting the portfolio. As demonstrated in the figure below this is a marked increase over previous years and reflects the growing effect of our ageing portfolio. The capital repairs for Christchurch were funded separately.

Figure 2: Expenditure (actual) and budgeted in millions of dollars for each financial year.



Housing New Zealand contracts maintenance services through the Performance Based Maintenance Contract (PBMC). This is a regional contracting model which was revised in 2014. The current PBMC contract took effect from 1 July 2014 and provides Housing New Zealand with contractor capacity to deliver responsive repairs, routine and planned works for the Housing New Zealand housing portfolio nationwide. The contract has a five plus one-year term, which ends on 30 June 2020.

There are currently 13 separate regionally-based PBMC contracts in place throughout New Zealand with seven head contractors responsible for delivering these contracts.

Head PBMC contractors manage the execution of maintenance activity via a network of subtrades and co-ordination with national supply partners. They are responsible for the efficiency, safety, quality and the compliant delivery of maintenance and are measured against a comprehensive set of Key Performance Indicators which covers all areas of performance including customer satisfaction.

The Maintenance 2020 Programme has been established to deliver an improved maintenance repairs and upgrade programme service to customers to take effect under the new PBMC contract from 1 July 2020.

Responsive repairs and maintenance

Responsive repairs are those needed as a result of component failure, damage, natural causes, or wear and tear. These repairs are commonly phoned through to the Customer Services Centre by tenants, identified by tenancy managers and logged via our mobility application, identified by our contractors or requested by a growing number of MyHNZ digital portal customers.

Responsive repairs are prioritised and then completed by our seven maintenance contractors across the 13 contract regions nationwide. Responsive repairs are prioritised according to the urgency of the work required. The number of work orders completed for responsive repairs over 2018/19 to 31 May 2019 was 410,338.

Our target is to respond to all urgent health and safety requests within four hours. The response time for 2017/18 was 2.79 hours, which is a significant improvement on 3.51 hours the previous year. For the current financial year to 31 May 2019, we are tracking at 2.11 hours. This reflects the efforts of our contractors to ensure response times are well managed. The increased demand for housing during 2017/18 meant we undertook less work on our vacant properties than anticipated – due to extremely low levels of tenant turnover and record occupancy levels.

Planned maintenance

Every year, Housing New Zealand carries out a suite of specific, targeted planned maintenance programmes.

Over 2017/18 we completed a total number of 20,830 planned maintenance jobs and have invested significant resource into refreshing and maintaining our homes for our tenants. We spent \$319 million in operating expenditure on maintaining our homes and a further \$155 million in capital expenditure on maintenance, upgrades and improvements to our properties; a combined expenditure of \$474 million.

Complex Remediation Programme

The Complex Remediation Programme was set up to address deferred maintenance and progressive failures of building elements (typically due to age), within Housing New Zealand complexes. However this has evolved to consider a whole of building approach, including how to address thermal performance issues and other key considerations such as efficient maintenance and amenities.

Previous years have focused on works to several blocks in Auckland while undertaking design works on some of the more complex buildings nationally. The current year has seen a strategic overlay to how we treat the complexes in the programme and significant inroads into the designs of some of our more complex blocks, with works set to start on several in the near future.

The programme is set to continue in the coming years with over 40 complexes in the pipeline across the country, which are in various stages including review and confirmation of scope, design, procurement and construction.

Retrofit Programme

The Retrofit Programme began with a pilot study in the Hutt Valley, designed to inform a strategy to upgrade existing housing assets in our portfolio. The intent of the pilot was to explore both the scope and methodology for improving thermal performance and to ensure that our key drivers 'warm, safe and dry' are met across our housing portfolio.

In November 2018 the pilot was extended to a further 200 homes in the Hutt Valley but with another challenge – to include options to both modernise the homes including open plan living and new bathrooms, and also to include accessible features within the scope. This work continues with the majority of these homes expected to be completed in 2019/20.

Options are now being considered to develop this programme into a nationwide programme of works, incorporating the lessons learned to date, with the aim of retrofitting Housing New Zealand's remaining eligible properties across the portfolio.

Warm and Dry Programme

In late 2015 we began a targeted programme to make all properties warm and dry. Since then we have undertaken warm and dry related interventions on over 32,000 properties. Over 2017/18 nearly 8,500 properties went through the Warm and Dry programme. The programme has largely been completed in Auckland (apart from hard-to-access tenancies). It is expected that the balance of the portfolio for both Auckland and the rest of the country will be completed in 2018/19.

Driveway safety

Our Driveway Safety programme continues to ensure our properties are safe for young children. The programme includes the installation of fences and gates with childproof latches at Housing New Zealand properties with young children, as well as speed restriction signs, speed humps and convex mirrors where appropriate. Since the programme commenced in 2013/14 we have delivered driveway safety interventions to over 18,738 properties, with 2,570 of those being delivered in 2017/18. This programme continued into 2018/19.

Property condition assessments

We assess the condition of our portfolio on a regular basis to monitor and maintain the essential components of our properties such as roofs and exterior walls, and to maximise the lifespan of our homes.

Assessing and monitoring the condition of our homes enables us to:

- determine what corrective action is required and schedule this as needed
- forecast the investment in our portfolio more accurately
- ascertain the reasons for performance deficiencies in our properties
- record property condition issues to guide asset management planning and decisions.

Assessments of our portfolio are carried out through desktop assessments or physical surveys using the New Zealand Asset Management Support Asset Condition Scale to determine the condition of our properties.

The information gathered in these assessments guides asset lifecycle decisions and informs planned renewal programmes to ensure that house components are maintained or replaced before they fail.

In 2017/18 our desktop assessments covered 58,432 properties and we physically surveyed over 1,600 properties across Auckland, Christchurch, Dunedin, Hamilton, Wellington and Whangarei. The desktop assessments showed an average condition grade of 2.46 and the physical surveys

recorded an average condition grade of 2.33. This compares with 2.44 and 1.68 respectively recorded in the previous year. These results reflect refinements in our approach and improved training for surveyors, enabling them to determine the condition of property components more accurately.

Overall the assessments also show little change in the condition of our portfolio over the previous year, with 90 percent of our homes meeting the baseline condition standard.

Property Health and Safety Inspections

An annual health and safety inspection is undertaken of our properties, which complements the annual tenancy inspection and occurs six months after the last tenancy inspection. The health and safety inspection includes cleaning and testing smoke alarms, checking window security stays, fall risks, stove anti tip devices and checking the hot water cylinder temperatures and identifying other health and safety issues.

Where possible remedial work is undertaken at the time of inspection otherwise a work order is raised for the work to be undertaken by the PBMC contractor.

3.3 Purchasing and Contracting Arrangements

The Income-Related Rent Subsidy (IRRS) Agreement

Public housing tenants pay rent capped at a percentage of their assessable income up to a certain threshold. Where a tenant's assessable income is above the threshold, they pay progressively more rent until the market rent is reached.

IRRS pays Housing New Zealand the difference between Income Related Rents and market rent. Housing New Zealand has been working with MSD and now HUD on setting up 'contracts' to govern the payments and to allow for relationship management, standards, and payment terms, including any payments different to IRRS (as allowed for under the legislation). These are modelled on contracts with CHPs but recognise Housing New Zealand's status as a Crown Agent.

The Operating Supplement is a subsidy that is paid to housing providers as a percentage of market rent. It is designed to encourage growth in the supply of public housing. We are currently finalising contracts to pay Operating Supplement on top of the IRRS to allow new builds outside of Auckland.

3.4 Operating as a High Performing Organisation

To be successful across each of our roles, we need to ensure our organisation is functioning well. Our Strategic Plan sets out how we will change our organisation to ensure that it is positioned to deliver on our priorities.

The way in which we have thought about our response to our direction is through the framework of becoming a high-performing organisation. The high-performing organisation framework outlines four key qualities and characteristics of high performance for an organisation:

- being strategy driven
- brilliant and engaged people
- being operationally excellent
- being efficient.

These characteristics sit alongside three underlying attributes: reputation, health safety and security; behaviours and attitudes.

3.4.1 Organisational capability assessments

The Investor Confidence Rating (ICR) is a three-yearly Treasury assessment, in the form of an A-E rating, of the performance of investment-intensive agencies in managing investments and assets that are critical to the delivery of New Zealand Government Services. The rating is an indication of the level of confidence that Cabinet and other investors can have in an agency's ability to realise a promised investment result if funding was committed.

Housing New Zealand attained an 'A' rating in its first assessment result in 2016. Following the 2016 assessment, Housing New Zealand continued to make improvements in a number of areas, including: project, programme and portfolio management, asset management and long-term investment planning. Resources were also committed to lifting capability across the assessment elements.

In the 2018 ICR assessment Housing New Zealand retained an 'A' rating and was singled out as having the strongest all-round investment management capability assessed to date. This was a positive result, particularly given the reduced period between assessments to implement improvements, changes to assessment criteria and the addition of Procurement Capability to the assessment.

Our 'A' rating is a result of a well-performing portfolio and reflects our improved capability and performance in recent years. The agency's continued focus on improvement and developing people and capability is reflected in the ICR result. The Board and executive will continue to focus on ensuring Housing New Zealand is best placed to deliver on the Government's commitments to invest in quality housing.

3.4.2 Our workforce

Housing New Zealand aspires to be a Crown Owned Entity leader and employer of choice by providing outstanding service, acting with integrity, and valuing people which contributes to and supports Housing New Zealand's own objectives and values.

The Housing New Zealand employment relationship is guided by our values and good employment principles and we are committed to applying our values and principles to everything we do. This commitment includes being fair and reasonable with each other in our dealings, and accepting personal responsibility for our actions.

Kotahitanga – Values Charter

Kotahitanga are the values and foundation for how we work. Housing New Zealand believes that people do their best in an environment of trust, care, contribution, humility and learning. We also do our best when we take personal responsibility to achieve our shared vision of building lives and communities by housing New Zealanders.

Location functionally/geographically

Housing New Zealand has over 1,500 full time equivalent (FTE) employees with teams located around the country, from the far north to the deep south and every where in between.

The majority of our people are located in the greater Auckland (48 percent) and the greater Wellington (38 percent) regions, in both regional and central offices. The remaining 14 percent of our people is distributed in small numbers across the smaller centres nationwide.

The regional distribution of our people has been relatively stable over the past 12 months. Auckland and Wellington continue to experience rapid ongoing growth.

Our people are involved in a wide range of jobs. The geographical location of our people is closely related to the particular function or role they perform, and the location which best allows them to meet the needs of our customers.

The People and Property Team provide front-line tenancy management and maintenance services nationwide, primarily accounting for the small numbers of people distributed to regional offices across the country.

Our Customer Service Centres operate in both Porirua and Manukau. Similarly, our core internal support services such as Finance, Legal, People and Communications have teams located in both Wellington and Auckland.

The majority of People, Technology and Change, and Governance teams are Wellington based, while the Property Development, Modular Construction Commercial Partnering, Strategy, Business Readiness, Transitional Housing and Redevelopment functions are predominantly Auckland based.

Housing New Zealand's Chief Executive is Auckland based.

Gender, Diversity and Inclusion

Housing New Zealand is committed to supporting all our people and building a workforce that reflects the diverse and inclusive community we live in and recognising the strategic imperative of inclusion and diversity. We know that in order to deliver customer-centric services to an increasing diverse New Zealand our people need to understand value and reflect this diversity.

As an organisation we are committed to providing opportunities for all our people to flourish regardless of gender, ethnicity, sexual orientation, religious and cultural beliefs, physical ability or age. Our approach is supported by our values and underpinned by the five gender pay principles set out by the New Zealand Government:

- freedom from bias and discrimination
- transparency and accessibility
- relationship between paid and unpaid work
- sustainability
- participation and engagement.

3.4.3 Health and Safety

The health, safety and security of our people, contractors and customers remain our first priority. Not only is a safe and healthy workplace a key priority for Housing New Zealand, but as a Government agency we have also signed up to the WorkSafe commitment to reduce harm to all New Zealanders. We do this through successful and inclusive partnerships, education, having shared targets and a range of thorough assurance activities. We can and do provide industry leadership in health and safety. A focus on construction safety and partnerships is central to our work plan.

We have already examined occupational health issues associated with asbestos, methamphetamine, paint containing lead and silica, and the mitigations that should be taken to protect our people, contractors and customers. We have also shared our toolkits and policies with the wider industry. This enables us to contribute to better performance right across the industry, from sole traders to large enterprises and other Government agencies.

An example of this in practice is the prequalification of our contractors. Housing New Zealand has engaged Impac PREQUAL as the sole third party provider of prequalification assessment.

Prequalification means we can ensure we are working with the right partners from the front end of the contractor management process. Strong professional relationships with trusted partners lead to better work flows and other efficiencies as well as better health and safety performance. We also use the system to identify trends amongst contractors so resources can be targeted to address shared gaps.

Part D: Appendices

4.1 Governance and Structure

The governance framework for Housing New Zealand involves three key parties: Parliament, Ministers, and Housing New Zealand's Board.

4.1.1 Parliament and legislation

The **Housing Corporation Act 1974** established Housing New Zealand as a statutory corporation with its own governing Board. Together with the Crown Entities Act 2004, it governs how Housing New Zealand relates to the Crown and its Ministers. The Housing Corporation Act was significantly amended in 2016 by the Housing Corporation (Social Housing Reform) Amendment Act 2016, which gave Ministers enabling powers to enter into and implement state housing transactions in respect of our housing portfolio and services.

The **Crown Entities Act 2004** is the principal Act governing the relationship between Housing New Zealand and the Crown. Housing New Zealand is described in Schedule 1 of the Act as a 'Crown Agent'. Crown Agents are the least autonomous category of Crown entities in that they must give effect to Government policies. The Crown Entities Act provides for Housing New Zealand to produce a Statement of Intent, permits the Minister to give directions to Housing New Zealand, and restricts how it may borrow, invest, and establish subsidiaries. The Act also regulates how our Board functions, including the appointment and termination of members, conflicts of interest, quorums for meetings, and Board committees.

The **Housing Restructuring and Tenancy Matters Act 1992**. This Act introduced income-related rents for state house tenants and the Social Allocation System. It has been amended several times, including:

- By the **Housing Restructuring (Income-Related Rents) Amendment Act 2000**.
- By the **Social Housing Reform (Housing Restructuring and Tenancy Matters Amendment) Act 2013**, which provided a statutory basis for community housing providers to apply for government funding for income-related rents for eligible new tenants, alongside Housing New Zealand; for needs assessment and associated functions to be transferred from Housing New Zealand to the Ministry of Social Development; for a regulatory framework to govern community housing providers. While Housing New Zealand is not subject to the regulatory framework governing registered community housing providers, we are expected to meet equivalent standards relating to tenancy and property management, governance, and financial management.
- By the **Housing Restructuring and Tenancy Matters (Social Housing Reform) Amendment Act 2016** (with respect to future social housing transactions). This amendment notes that sections 40 to 42 of the Public Works Act do not apply to the vesting of land to Housing New Zealand.

The **Housing Act 1955** provides Housing New Zealand with specific powers in relation to land. It allows the Governor General to take land for housing purposes under the Public Works Act 1981, for the Minister of Lands to set apart any Crown land as state housing land, and for Housing New Zealand to purchase land, dwellings or buildings for state housing purposes. The **Housing Agency Account** was established to monitor Crown-owned land managed by Housing New Zealand on behalf of the Crown. The Housing Act was amended in 2016 to give Ministers greater powers in respect of the management and disposal of Crown land held for state housing purposes.

The **Residential Tenancies Act 1986** governs all residential tenancies in New Zealand, including all state house tenancies. It defines the rights and obligations of housing providers (including Housing New Zealand) and tenants, established the **Tenancy Tribunal** to hear disputes between housing providers and tenants, and established a fund to hold all tenants' bonds. The Ministry of Business, Innovation and Employment administers the Act.

It was amended by the **Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016**. These regulations clarified landlords' and tenants' responsibilities in the provision and maintenance of smoke alarms. Minimum standards for ceiling insulation, and where practicable, underfloor insulation are also set out.

The **Residential Tenancies (Healthy Homes Standards) Regulations 2019** sets healthy homes standards that aim to make a significant change to the quality of New Zealand rental homes. The standards cover improvements to heating, insulation, and ventilation, and addressing issues with moisture ingress and drainage and draught stopping.

Housing New Zealand is also subject to **other relevant New Zealand legislation**, including the State Sector Act 1988, Public Finance Act 1989 (applies in part only), Official Information Act 1982, Privacy Act 1993, Bill of Rights Act 1990, Resource Management Act 1991, Building Act 2004, Property Law Act 1952, Public Works Act 1981, and Employment Relations Act 2000.

Several Treaty Settlement Acts place particular obligations on Housing New Zealand when it is seeking to divest surplus state housing. For example, the Waikato Raupatu Claims Settlement Act 1995; Port Nicholson Block (Taranaki Whānui ki Te Upoko o Te Ika) Claims Settlement Act 2009; Ngāti Porou Claims Settlement Act 2012 and more recently the Ngā Manu Whenua o Tāmaki Makaurau Collective Redress Act 2014, are significant examples of Treaty settlement legislation that Housing New Zealand must consider before it may dispose of surplus housing assets.

4.1.2 Role of the Minister

The primary relationship between the Government and Housing New Zealand is between Ministers and Housing New Zealand's Board.

Responsible Ministers are jointly responsible for:

- Conveying the Government's expectations to Housing New Zealand
- Overseeing the Statement of Intent and agreeing the use of any operating surplus
- Appointing and dismissing members of Housing New Zealand's Board and monitoring its performance
- Monitoring Housing New Zealand's financial performance.

4.1.3 Other agencies

Monitoring of Housing New Zealand

Housing New Zealand's performance is monitored by both the Ministry of Housing and Urban Development (HUD) and the Treasury. HUD is the responsible Minister's agent in monitoring the Crown's ownership and service delivery interests in Housing New Zealand, including all matters related to its financial operations, appropriations, service delivery, and operational performance.

This monitoring includes:

- Ensuring Housing New Zealand's strategic direction is aligned with the interests of government and fits within the statutory framework.
- Monitoring against the accountability and performance reporting framework.
- Managing the performance cycle.
- Providing assurance on the capability of Housing New Zealand, and advice on the quality of the Board's systems for managing risk.

The Treasury is responsible for financial monitoring in relation to Housing New Zealand's balance sheet.

Policy support

Housing New Zealand does not provide policy advice directly to the Minister. However, it supports the development of policy by other agencies in a number of ways. These include:

- Consultation on policy proposals.
- Participation in governance and steering groups, and in working groups.
- Advice to select committees if requested.
- Consultation on draft legislation if approved.

Policy proposals often result in disproportionate effects on Housing New Zealand because of the size of its portfolio and the composition of its tenant base. Similarly, targets and budgets need to reflect the practicalities of delivery. Housing New Zealand's inclusion in decision-making processes ensures that unintended consequences are avoided and the Crown's investment in public housing is appropriately considered. Examples of policies and legislation that directly affect Housing New Zealand's operations include:

Ministry of Housing and Urban Development

- Policy settings e.g. KiwiBuild, Unit Titles Act, Residential Tenancies Act, Public housing.
- Purchasing public housing places via the Income-Related Rent Subsidy appropriation.
- Managing appropriations – homeownership products and Community Group Housing.
- Monitoring Housing New Zealand performance.

Ministry of Social Development

- Public housing needs assessment and waiting list management.

Ministry of Business Innovation and Employment

- Immigration - Refugee quota.
- Building Act – including accreditation as a Building Consent Authority.
- Support for skills training and apprenticeship programme to grow the building sector.

Department of Corrections

- Policies and budgets associated with housing released prisoners.

Ministry of Health

- Policies and budgets associated with disability accessibility and mental health

4.1.4 Role of Housing New Zealand's Board

Housing New Zealand's Board is responsible for the overall governance of Housing New Zealand and for managing it according to its legal mandate. The Board provides leadership and sets Housing New Zealand's strategic direction. It also selects, appoints, and monitors the performance of the Chief Executive.

The Board comprises eight non-executive members. Each appointment is for a fixed term with the possibility of further reappointment. The Board Chair and Chief Executive meet with the Minister monthly or as required.



Vui Mark Gosche (Chair)

Mr Gosche is a former Cabinet minister who also held the Housing portfolio in the early 2000s. Since retiring from politics in 2008 he has served on numerous not for profit, community and trust boards and was recently confirmed as the new chair for the Counties Manukau District Health Board.



Adrienne Young-Cooper (Deputy Chair)

Adrienne is a professional director of a number of organisations and businesses and a qualified town planner. She is Chair of Panuku Development Auckland and sits on the boards of Queenstown Airport Corporation Limited, Sealink Limited and several other council and community organisations.



John Duncan

John is the executive director of the Investment Office of the Auckland City Council and also a director of Public Trust and is Chair of HLC. He has extensive management experience with a focus on global financial markets, banking and risk management. He brings financial transaction and investment skills as well as a solid understanding of the public sector environment at both a national and local level.



Michael Schur

Michael Schur is a finance and procurement specialist with over 20 years' international experience. He is experienced in both the public and private sectors, in economics, public policy, public sector governance, infrastructure, finance and microeconomic reform.

Michael has broad board experience as a chairperson, non-executive director and as a chief executive.



Mark Ratcliffe

Mark Ratcliffe has worked for more than 25 years in the telecommunications industry. Mark was the CEO and Managing Director of Chorus Limited, a top twenty listed company in New Zealand, since its demerger from Telecom New Zealand (now Spark Limited) in 2011 until February 2017. He was Chief Executive of Chorus since 2008 when it was part of Telecom. Earlier roles at Telecom including Chief Operating Officer, Technology & Wholesale and Chief Information Officer. Prior to telecommunication, Mark worked in senior accounting, IT, project management and consulting roles in England and New Zealand. Mark is currently a director of 2degrees and First Gas Group. Mark holds a Bachelor of Accounting, Huddersfield University, England and is a member of the NZ Institute of Directors.



Huhana Hickey

Huhana Hickey has recently completed a post-doctoral research fellowship at the Auckland University of Technology. She is a panel member of the Human Rights Review Tribunal and received her PhD in Laws and Social Sciences in 2008. Dr Hickey is a community and disability activist and is or has been on the boards of a wide number of NGOs and community groups. She is a tenant of Housing New Zealand and is the first member to bring that perspective to the board since Housing New Zealand was created. This is valuable to Housing New Zealand as we change to be a tenant-focused organisation.



Leigh Auton

Leigh Auton was the Chief Executive of Manukau City Council until the formation of the new Auckland Council in 2010. He is currently a Trustee of Sistema Aotearoa, the Auckland Philharmonic Orchestra, Habitat for Humanity Greater Auckland and Teach First NZ. He is Chair of the Pulman Park Trust and the Papakura Kootuitui Trust. Mr Auton has extensive governance experience and an understanding and empathy with Housing New Zealand's tenant base and the many and varied issues they face. He has a thorough understanding of how large organisations work and the systems and processes required to deliver operationally.



Philippa Howden-Chapman

Philippa Howden-Chapman is a Professor at the Otago University Medical School who specialises in public health, with a particular focus on housing, energy, climate change and sustainable cities. She is a winner of the prestigious Prime Minister's Science Prize. Professor Howden-Chapman was a member of the Independent Housing Stocktake Group and is a member of the Ministerial Advisory Group on Housing and Urban Development. Her experience in conducting research with and on Housing New Zealand over nearly two decades enables her to make a significant contribution to the Board.

4.1.5 Role of Housing New Zealand's Chief Executive

Housing New Zealand's Chief Executive is Andrew McKenzie. The Chief Executive reports to the Board and is responsible for:

- The efficient and effective day-to-day running of Housing New Zealand
- Ensuring the implementation of Housing New Zealand's strategic direction
- Developing and maintaining strategic relationships with Chief Executives from other government agencies and other key stakeholders.

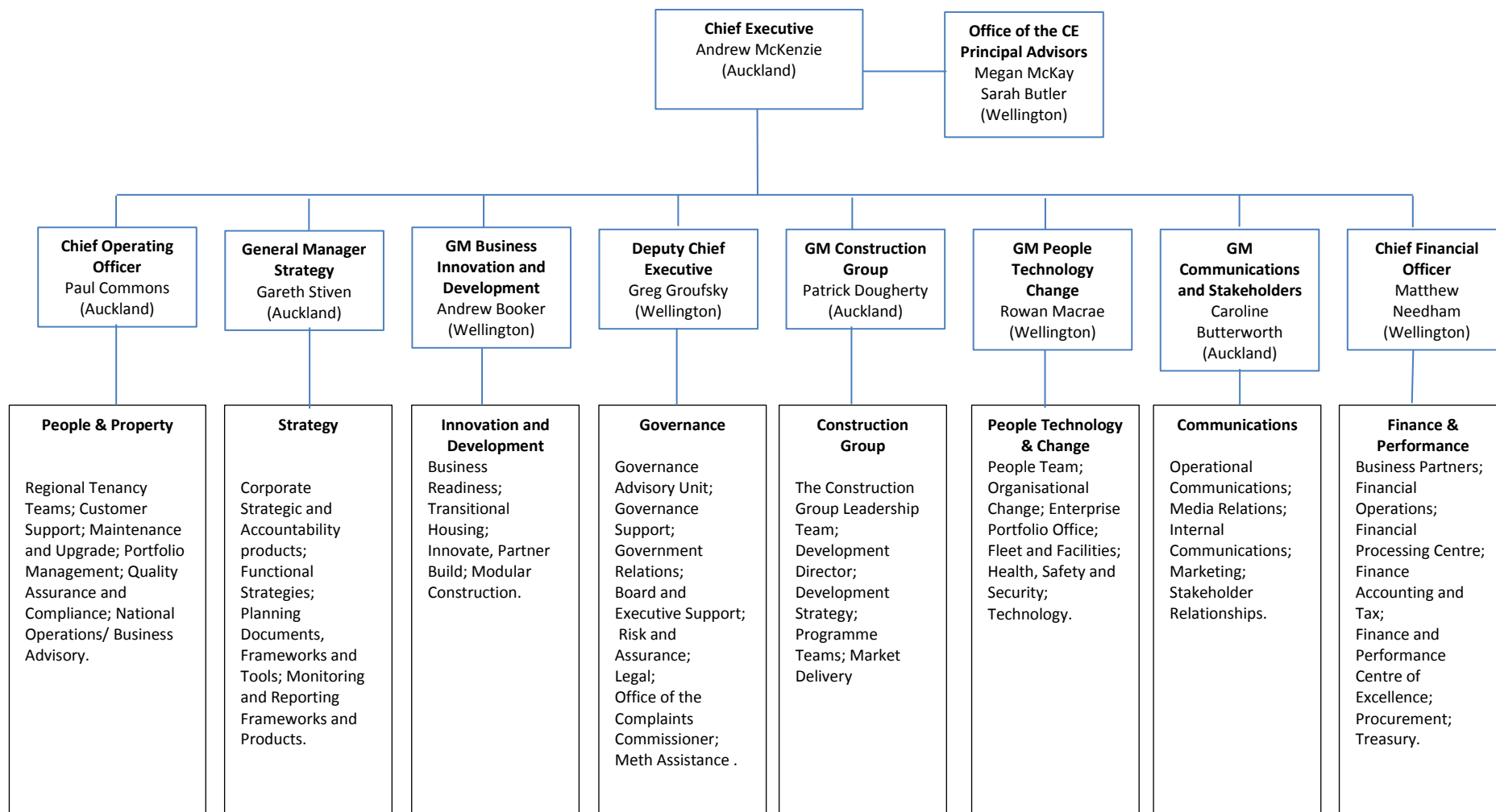
The Chief Executive leads an Executive Team of eight senior managers:

- Greg Groufsky, Deputy Chief Executive
- Paul Commons, Chief Operating Officer
- Matthew Needham, Chief Financial Officer
- Patrick Dougherty, General Manager Asset Development
- Caroline Butterworth, General Manager Communications and Stakeholders
- Rowan Macrae, General Manager People, Technology and Change
- Andrew Booker, General Manager Business, Innovation and Development
- Gareth Stiven, General Manager Strategy.

Other key staff who are in regular contact with Ministers and their offices are:

- Rachel Kelly, Manager, Government Relations
- Julian Silver, Director Governance Advisory Unit
- Martyn Watterson, Manager Communications and Stakeholder Relationships, Central
- Glenn Conway, Manager Communications and Stakeholder Relationships, Southern
- Shannon Gatfield, National Operations Manager

4.1.6 Housing New Zealand Organisational Structure



4.1.7 Housing Agency Account

The Housing Agency Account (HAA) is administered as an agency of the Crown by Housing New Zealand under the Housing Act 1955 (Housing Act). Under the Housing Act, Housing New Zealand is empowered to act as an agent of the Crown in carrying out the Crown's decisions in relation to the acquisition, setting apart, and development of land, and the acquisition of assets for state housing purposes.

HAA does not form part of Housing New Zealand's Group Financial Statements. Housing New Zealand prepares the HAA financial statements and Ernest and Young undertake their audit. HAA is consolidated to Ministry of Business and Innovation Employment accounts.

Currently the HAA contains 40 residential properties and a number of development sites, the largest of which is Hobsonville. Hobsonville Point consists of approximately 167 hectares that includes HAA land, Panuku Development Auckland land, and Ministry of Education land.

In Auckland, the Treaty settlement with Ngā Mana Whenua o Tāmaki Makaurau means that certain prerequisites apply before Housing New Zealand or HLC can develop most Crown-owned land. This includes, among other things, an obligation on the Crown to provide Ngā Mana Whenua o Tāmaki Makaurau's post settlement governance entity with the first opportunity to be the developer (subject to some exceptions).

The Hobsonville Point Project, as the major component of the HAA, is a large-scale, integrated urban development project in northwest Auckland on the land formerly used by the New Zealand Defence Force and known as the Hobsonville Airbase. The Hobsonville Land Company was established in 2005 as a wholly-owned subsidiary of Housing New Zealand to develop the land for state housing purposes under the Housing Act 1955. The company changed its name in February 2017 to HLC (2017). This was the result of rebranding as they are now undertaking projects other than at Hobsonville. The operating expenditure of HLC is fully recovered by a management fee charged to HAA. The vision for Hobsonville Point is to build a strong, vibrant community that sets new benchmarks for a quality and accessible urban development with an environmentally responsible focus.

When complete, Hobsonville Point will include over 4,000 homes as well as two new schools, community facilities, amenities, public transport facilities and neighbourhood centres to support this new community. The development will include up to 20 percent of homes in the affordable price bracket, as was agreed with Cabinet and the then Minister of Housing.

4.2 Financial Information

The Housing New Zealand (Housing New Zealand) Group is often referred to as Housing New Zealand. However, it comprises three separate entities:

1. Housing New Zealand Corporation (Housing New ZealandC) is a Crown Entity pursuant to the Crown Entities Act 2004 and is the parent entity. Housing New ZealandC receives appropriations, owns the Community Group Housing properties (CGH) (funded through appropriations) and employs all staff. It on-charges most of the staff cost to Housing New Zealand Ltd.
2. Housing New Zealand Ltd (Housing New ZealandL) is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of Housing New ZealandC. Housing New ZealandL is the main operating company and owns all the land except for the CGH properties.
3. Hobsonville Land Company (HLC) is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of Housing New ZealandC. HLC undertakes operations on behalf of

the Housing Agency Account (which is a Crown account), as well as development management services for Housing New Zealand and other property consulting work.

4.2.1 Overview

Financial Information

The Housing New Zealand Corporation Group is often referred to as Housing New Zealand. However, it comprises four separate entities:

- Housing New Zealand Corporation is a Crown Entity pursuant to the Crown Entities Act 2004 and is the parent entity. Housing New Zealand Corporation owns Community Group Housing (CGH) properties funded through appropriations and transitional housing properties funded through a loan drawn down from MSD and employs all staff. It on-charges most of the staff cost to Housing New Zealand Ltd.
- Housing New Zealand Ltd is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of Housing New Zealand Corporation. Housing New Zealand Ltd is the main operating company and owns all the land except for the CGH and transitional housing properties.
- HLC (2017) Ltd (HLC) is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of Housing New Zealand Corporation. HLC undertakes operations on behalf of the Housing Agency Account (which is a Crown account), as well as development management services for Housing New Zealand and other property consulting work for third parties.
- Housing New Zealand Build Ltd is a company pursuant to the Companies Act 1993 and a wholly owned subsidiary of Housing New Zealand Corporation. Housing New Zealand Build Ltd was established to undertake 'build for sale' activity within the Housing New Zealand Corporation Group.

Our finances at a glance

In 2017/18 Housing New Zealand:

1. owned housing portfolio was valued at **\$26,705 million**, a **\$1,481 million** increase from 2016/17 (\$25,224 million)
2. received over **\$1,338 million** in income annually from rent, interest and Crown funding (\$1,212 million from rent and rental subsidies)
3. spent **\$842 million** in annual operating expenses
4. invested **\$940 million** of capital expenditure on our housing portfolio – this included:
5. \$762 million on additional homes / redevelopments
6. \$12.7 million in our McLennan KiwiBuild programmes
7. \$155 million on capital maintenance of existing homes
8. invested a further **\$319 million** in on-going repairs and maintenance
9. achieved an improved earnings before interest, taxes, depreciation and amortisation (EBITDA) of **\$496 million (37 percent of revenue)** compared to \$454 million achieved in 2016/17 (34 percent of revenue)
10. achieved a net operating surplus of before tax of **\$125 million**. (54 percent YTY)

Refer to Annual Report for 2017/18 for more information.

4.2.2 Appropriations

Housing New Zealand receives appropriated funding from Vote Housing and Vote Social Development. The appropriation from Vote Social Development is for the Income-Related Rent Subsidy, and is administered by the Ministry of Social Development. All other appropriations are for Vote Housing, and are administered by the [Ministry of Business, Innovation and Employment (MBIE) or HUD]. The Crown uses these appropriations to fund MBIE's activities, and contract with other providers.

The following tables detail the funding available to Housing New Zealand to deliver Crown programmes in 2018/19. They include a number of non-core programmes, such as Welcome Home Loans, KiwiSaver HomeStart, Community Group Housing, and legacy loan portfolios that require on-going administration.

They exclude funding for the Housing Agency Account (HAA), which is accounted for separately from Housing New Zealand Group activities in a formalised agency arrangement with the Crown.

Table 2 - Operating funding to deliver Crown programmes 2017/18 and 2018/19

Crown programme	Budget 2017/18 (\$m)	Budget 2018/19 (\$m)
Purchase of Housing and related Services for Tenants paying income-related rent	789.5	863.82
Community Group Housing – Rent Relief	4.1	4.10
Community Group Housing - Top-up Market Rents	10.1	13.89
Interest Subsidies and Administration for Legacy Mortgages	1.5	1.15
KiwiSaver Housing Deposit Subsidy	102.5	106.12
KiwiSaver Housing Deposit Subsidy – Administration Costs	3.0	2.99
Welcome Home Loans (Mortgage Insurance Scheme) including Administration costs	8.7	8.70
TOTAL OPERATING FUNDING	919.4	1,000.77

Table 3 - Capital funding to deliver Crown programmes 2017/18 and 2018/19

Crown programme	Budget 2017/18 (\$m)	Budget 2018/19 (\$m)
Acquisition and Improvement of Community Houses ¹	5.8	5.8
Refinancing of Housing New ZealandC and Housing New ZealandL debt ²	335.9	127.18
Total operating funding	341.7	132.98

Notes:

1. The Community Houses capital appropriation is split into equity (payment) and a debt (new DMO funds) portion

2. The \$127.18 million in the table above relates to existing loans issued by the Crown (through the Debt Management Office) to Housing New Zealand and will be rolled over at maturity. This does not reflect additional capital available for Vote Housing.

Continuous Improvement (Lean)

Housing New Zealand is going through a period of considerable change to the way the organisation operates, including its values and culture, tenancy management approach and a massive increase in scale and complexity of the build programme. The Finance and Performance team will need to grow its resource and capability in order to meet and service the growth.

It is anticipated that the utilisation of business improvement tools (Lean) and technology will deliver efficiency gains, with potential cost avoidance, freeing up resources to focus in the key areas of growth.

The creation of a Lean culture formed a central part of the Finance vision, with the principle that Lean would guide our activities, and reshape our processes and approaches. While still in its early stages of adoption, the introduction of Lean has already led to significant savings in both time and effort expended, allowing our people to refocus attention to higher-value activities.

Lean has been a people led activity, with people encouraged to identify areas of their own work which they could improve upon. Identifying and isolating an hour per week for people to focus their skills on resolving process issues, working with other business units to smooth information transfers or gain better understanding of impacts, or simply 'fix what bugs them' has seen incremental gains in overall efficiency and productivity. Visual management boards have been utilised to highlight the gains that Lean has provided, as well as being a useful space for staff to share ideas and gain insight into other initiatives and activities.

Some key highlights of the work completed to date include;

- Successful implementation of a 15 minute month end close
- Improved customer contact and interaction
- Total 8 weeks time saved across Housing New Zealand through changes to purchase card expense processing

Through the establishment of Continuous Improvement (CI) Champions, and ongoing Yellow Belt training, we are looking to increase our Lean maturity, moving past process improvement, to the development and implementation of an operating methodology which will allow process excellence and continuously improve results. In many ways Lean will change the way that the Finance team approach their work.

4.2.4 Borrowings

To help finance the delivery of Housing New Zealand's renewal programme and thousands of new and additional homes, in mid-2018 the Government agreed to changes to Housing New Zealand's borrowing protocol enabling it to borrow up to \$3.05 billion from sources other than the Crown.

This financing supports the Government's build programme announced in the 2018 Budget, including the Auckland Housing Programme.

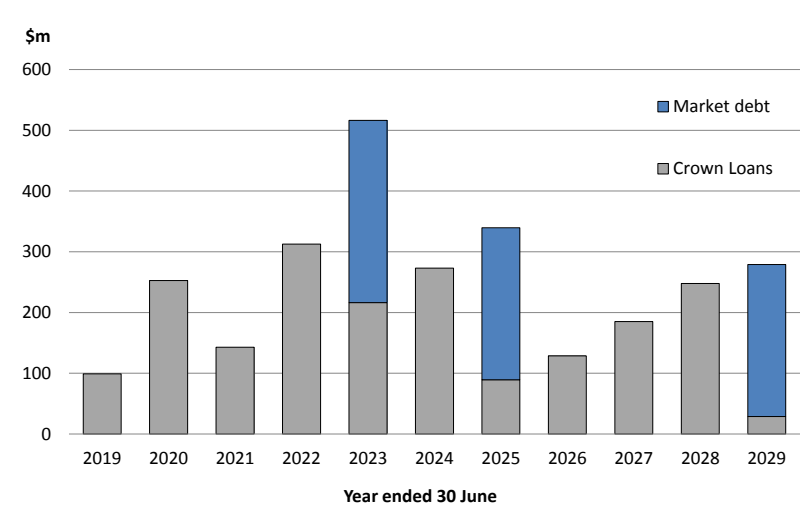
Housing New Zealand established a domestic bond programme in 2018 and, to date, has raised \$1.3 billion in term debt from wholesale domestic and offshore investors.

Financing from the market means Housing New Zealand has the flexibility to access the right amount of money at the right time for its lumpy renewal programme and its development work as well as providing certainty to enter into long term supply contracts. The long life nature of Housing New Zealand's assets and its lumpy renewal programme are the same as other

government-owned entities like Transpower, which regularly borrow under their own name, both here and abroad.

Housing New Zealand has issued debt on several occasions over the past 30 years, most recently in the late 1990s.

Figure 3: Term debt profile



4.3 Policies and Procedures

4.3.1 Monitoring and accountability

Table 4 summarises Housing New Zealand’s key accountability documents and reports you will receive regularly.

Table 4: Key accountability documents

Title	Brief description of content
Statement of Intent	The Statement of Intent sets the Housing New Zealand’s strategic direction for the next four years and identifies how outcomes will be achieved and measured. It also outlines Housing New Zealand’s contribution to the Crown’s objectives.
Statement of Performance Expectations	Housing New Zealand’s Statement of Performance Expectations sets out the organisation’s annual performance measures, targets, and annual forecast financial statements.
Annual Report	The Annual Report provides is an account of Housing New Zealand’s outcomes and output delivery, and financial and non-financial performance.
Quarterly reporting	Housing New Zealand’s quarterly reporting provides you with a snapshot of performance to date against the work programme outlined in the current Statement of Intent and Statement of Performance Expectations.

4.3.2 Health, Safety and Security

The health, safety and security of our employees, contractors and tenants remain our first priority. We have increased the capacity and capability of the Health, Safety and Security team to provide specialist support and advice across all three disciplines of Health, Safety and Security.

This has also ensured we can support the requirements of the Health and Safety at Work Act and be a reliably high safety performing organisation.

The provision of a national Incident Reporting System (Noggin) has enabled improvements to be made to the way we capture and report on health, safety and security data. We have also introduced improved Board reporting and will be looking to make further enhancements to our reporting through the inclusion of improved information regarding health and safety trends and risk profiles.

Work in the area of health and wellbeing has also been a priority. We focussed on mental wellbeing with the introduction of a three stage employee training programme to identify, manage their safety, and support signs of mental ill-health. We have increased the site and personal security for our front line staff.

During 2018/19, we developed and launched our Health and Wellbeing Plan 2018-2023 which aims to support and enhance employees health and wellbeing.

As well as staff health, safety and security, we have worked on initiatives that support both our tenants and our contractors to ensure our programmes consider their health, safety and wellbeing at all times. This included the development of a programme of work for best practice contractor management and assurance using MBIE's Contractor Management guide.

4.3.3 Right of First Refusal (RFR)

The Housing New Zealand Board makes decisions on a case by case basis whether to make land available for different settlements. In 2010, the Board considered how it could work with the Te Arawhiti (previously the Office of Treaty Settlements) to identify suitable arrangements so that RFR over surplus Housing New Zealand land could be included in treaty settlement packages negotiated with iwi/hapū. Te Arawhiti acknowledged the governance role the Board has over Housing New Zealand land and recognised that this land is used to give effect to the Crown's social objectives in relation to housing. As a result of these discussions, the Social Housing Exemption was agreed. Now when Housing New Zealand land is included in a settlement, it is done subject to the land being able to be used for any public housing requirements.

Current RFR

The following iwi have RFR over Housing New Zealand properties:

- Waikato-Tainui (Hamilton to South Auckland) 1995
- Taranaki Whānui Ki Te Upoko P Te Ika A Māui (Wellington, Hutt Valley) 2008
- Ngāti Porou (Gisborne, East Cape) 2012
- Ngāti Raukawa(Waikato-South Waikato) 2014
- Ngāti Toa Rangatira (Porirua, Hutt Valley) 2014
- Te Tau Ihu (Top of the South island i.e. Ngāti Kōata, Ngāti Rārua, Ngāti Tama Ki Te Tau Ihu, Te Atiawa o Te Waka-a-Māui, Ngāti Apa Ki Te Rā Tō, Ngāti Kuia, Rangitāne o Wairau, Ngati Toa) 2014
- Te Hiku (Far North i.e Ngāti Kuri, Ngāti Takoto, Te Rarawa, Te Aupōuri) 2014
- Te Tira Whakaemi (Wairoa) 2018

RFR under negotiation

Housing New Zealand are currently working with Te Arawhiti to grant RFR over Housing New Zealand properties to the following iwi.

Iwi	Stage	Housing New Zealand Board agreement to grant RFR	AIP signed	Initialled Deed of Settlement	Deed of Settlement
Ngāti Rangi (Ohakune)	Bill is currently at Select Committee	2016	2017	2017	2018
Ngāti Hinerangi (Matamata)	Deed of Settlement	2015	2015	2018	
Ngāti Maru (Stratford)	Deed of Settlement	2017	2011	2017	
Ngāti Maniapoto (Te Kuiti)	Initialled Deed of Settlement	2018	2017		
Te Korowai o Wainuiārua (Raetihi)	Initialled Deed of Settlement	2018	2018		
Whanganui Lands (Whanganui)	Agreement in Principal	2019			
Te Whānau a Apanui (Opotiki)	Agreement in Principal	Expected 2019			

Special cases

The Crown signed a Deed of Settlement with Ngāti Turangitukua in 1999. A formal deed defining the terms and conditions of RFR over Housing New Zealand properties was completed in 2017.

The Board agreed in 2010 that Housing New Zealand's position be to exclude Housing New Zealand land from RFR in Auckland due to the high demand for state housing, the large scale of the potential RFR and the higher value of the Auckland portfolio. Housing New Zealand has not employed this exemption to date.

Utilising the exemption would be at odds with Housing New Zealand's desired settlement outcomes for iwi and is likely to be a contentious approach particularly in the current environment where Crown/ Māori partnerships are a core deliverable for this government.

The Waikato-Tainui Raupatu settlement (1995) preceded this decision and includes RFR over Housing New Zealand properties in South Auckland. This settlement does not include the state housing exemption but does include an exemption for sales to tenants.

4.4 Non-appropriated programmes and initiatives

4.4.1 Home Lease Programme

The Home Lease Programme (HLP) started in 1995. Fundamentally it is a form of commercial lease tailored for use on residential property. Housing New Zealand leases property (houses, units and apartments) from private and corporate owners for a fixed lease period which may include rights of renewal. The lease is a limited maintenance and repair lease where Housing New Zealand:

- Hands back the property in the internal condition it receives it.
- Guarantees the rent 52 weeks a year.
- Indemnifies against damage.

The lease was originally a way to increase lettable housing stock without capital input in constrained capital times. The vast majority of leases were acquired through a new build to lease agreement with developers, providing new fit for purpose housing.

The conversion rate from existing market houses was very low, less than 1 percent in 2010, mainly due to condition and cost to private owner to bring to standard. Leasing existing houses ceased in 2010 and only newly constructed properties are considered.

Housing New Zealand has over 2,500 properties under lease with varying lease expiry dates. The programme is in a maintain numbers state and there is no active programme to acquire new leases. The lease programme is currently viewed as a short term tool where urgent housing is required, supplementary not mainstream (e.g. activities such as rehousing for major works in existing portfolio, specific needs or if directly approached by an informed existing Lessor).

The current issues with the programme:

- The leases are seen as an outstanding liability to Housing New Zealand accounts from a commitment and cash flow perspective, sitting in the Profit and Loss rather than the revaluation reserve account.
- The IP and internal collateral is now out of date, or lost, so any new push would require a complete rework.
- The market acceptance was always difficult and new tax law changes are impacting investors' decision making.
- The administration cost of managing 100's of private owners (along with the Housing New Zealand customers) through the lease period is immense and not cost effective.
- There is no replacement programme in place for terminating agreements, so lease numbers will continue to fall. This negative lease number adversely affects net stock numbers and houses have to be replaced by capital expenditure on new housing.

4.4.2 FirstHome Ownership Scheme

The First Home Ownership Scheme (FHOS) is a Housing New Zealand product approved by the Board encouraging first home owners to purchase vacant Housing New Zealand properties.

Housing New Zealand was able through this product determine who could buy a Housing New Zealand house under sale because in a hot market high equity buyers (investors) were shutting out first home buyers. FHOS was delivered through a tendered external marketing team and provided education and support to first home applicants. The applicants had to meet certain

criteria (income cap etc.) but were eligible for First Home Grants, Welcome Home loans etc. and were required to occupy the house for a minimum of 3 years.

Current status

FHOS is technically still available. However the massive increase in demand for state housing means there are no properties currently available. FHOS has to some extent been replaced by the KiwiBuild first home buyer product in the market. The original FHOS scale was approximately 500 houses per annum.

The tendered external provider contract ended December 2017 so it would be difficult to restart on short notice.

4.4.3 Tenant Home Ownership Programme

The Tenant Home Ownership Programme (THO) is a crown product supporting first home ownership. THO offers the opportunity to existing tenants with 3 years or more tenure, to buy eligible Housing New Zealand properties (there are some unavailable properties) within Housing New Zealand's portfolio, if certain criteria are met. Tenants are eligible to apply for Home Start grants, Welcome Home loans and KiwiSaver assistance should they be in the scheme.

Current status

THO is active with over 100 applicants applying nationally per month, however the conversion rate is low with approximately 50 sold per year.

The current issues with the programme:

- Rising house prices have taken many properties away out of tenant affordability.
- Iwi rights of first refusal in many jurisdictions mean many tenants have the opportunity removed if iwi wish to acquire the house.
- Time consuming process which needs modernising.
- Tenant indebtedness means sourcing bank funding is difficult.
- A large amount of existing Housing New Zealand stock is now withheld for redevelopment reducing the pool of properties.

4.5 Appropriated Programmes and Initiatives

4.5.1 Hobsonville Point Development

The Hobsonville Point development contributes to the accelerated supply of urban land and housing (including affordable housing) for a growing Auckland. The development includes an area of approximately 167 hectares of land adjacent to the Waitemata Harbour in north-west Auckland. This land was formerly an air force base and was declared surplus in 2000/01.

HLC was formed as a wholly-owned subsidiary of Housing New Zealand to manage the Hobsonville development. It has been partnering with the private sector to provide capital essential for infrastructure and the delivery of new housing at the site.

The delivery of the project's objectives agreed by Cabinet (the state housing objectives), including the affordable housing objectives, are secured through contractual mechanisms with development and build partners, and supported by HLC working proactively with these and other parties.

The project became self funding from 1 July 2014 through funds received from land sales which are held in the Housing Agency Account. HLC now anticipates the delivery of in excess of 4,000 homes. The build programme is due to be completed in 2024.

HLC Mandate and Future Activities

HLC has been mandated by Housing New Zealand and the Treasury to expand its activities beyond the Hobsonville Point land site.

- Specifically HLC is now working on Housing New Zealand's North Shore land release strategy centred on the Northcote redevelopment. This will deliver around 400 new state homes and 800 market homes through the reconfiguration of 298 Housing New Zealand properties.
- Other precincts mandated are Mt Roskill, Mangere and Avondale. The Mt Roskill and Avondale precincts include the Treasury signal sites of Mt Roskill South (Akarana) and Racecourse Parade.

HLC has been building its capability and capacity to undertake the master planning of these large scale redevelopment programmes and to deliver civil works, land remediation and commercial land sales to enable the delivery of state, market and affordable homes.

4.5.2 Community Group Housing

The Community Group Housing (CGH) programme provides affordable housing solutions to community groups that offer a variety of services, including long term residential care, to the most vulnerable people in New Zealand. CGH targets groups that provide housing and support services for those with physical, intellectual and psychiatric disabilities, residential alcohol and drug services, women who require refuge, transitional housing, youth at risk, and prisoner reintegration.

The CGH portfolio currently consists of 1,500 properties providing around 5,149 bedrooms. The portfolio is valued at around \$619 million. In 2018/19, \$4.1 million has been appropriated for rent support subsidy to providers, and \$13.9 million for the market rent shortfall. A further \$5.8 million has been appropriated for Housing New Zealand to acquire or to upgrade CGH properties.

4.5.3 Welcome Home Loan

Housing New Zealand support Welcome Home Loans (WHL) by providing participating lenders with lenders' mortgage insurance. WHL are designed for first home buyers who can afford to make regular repayments on a home loan, but have trouble saving for a large deposit.

As at 31 May 2019 in 2018/19 we underwrote 1,209 loans with mortgage insurance arrangements, underwritten through the Welcome Home Loan programme. This is compared to 1,673 during all of 2017/18.

4.5.4 Kāinga Whenua Loans

Kāinga Whenua is a Government initiative launched in February 2010 as a targeted product within the Welcome Home Loan programme. It is funded through the Welcome Home Loan appropriation.

Housing New Zealand works with Kiwibank to help Māori to achieve home ownership on multiple-owned land, by providing lenders' mortgage insurance through the Kāinga Whenua loan scheme. To date we have settled 37 Kāinga Whenua loans, a further eight are in the process of being drawn down and another eight have received pre-approval.

In March 2018, KiwiBank signaled its intention to withdraw from the Kāinga Whenua Loan Scheme. In the period since, Housing New Zealand worked with Kiwibank to identify and develop an interim solution to ensure the ongoing delivery of Kāinga Whenua, as well as an alternative approach to accessing finance to build on Māori land.

However, in recent months, Kiwibank's position has changed to the extent that they are no longer interested in pursuing an interim solution. In the meantime, Kiwibank has said that they will continue to accept applications until such time as a replacement loan facility has been developed.

HUD is currently developing a long term replacement for the Kāinga Whenua loan scheme.

4.5.5 KiwiSaver HomeStart Grant

The KiwiSaver HomeStart grant was introduced by the Government in April 2015 replacing the KiwiSaver Deposit Subsidy. The HomeStart grant is a tax-free grant available after three years of contributing to Kiwisaver. The grant is \$1,000 for each year of contribution, up to a maximum of \$5,000, when buying an existing property.

As at 31 May 2019 during 2018/19 Housing New Zealand received 33,898 KiwiSaver applications and approved 16,550, compared with 36,414 KiwiSaver applications received and 17,699 approved during all of 2017/18.

Housing New Zealand paid out \$79.8 million in KiwiSaver HomeStart grant payments as at 31 May 2019 in 2018/19, compared with \$81.2 million in all of 2017/18.

4.6 Statement of Performance Expectations 2019/20